



FOR IMMEDIATE RELEASE

News Release

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Mentor Graphics Reports Annual and Fiscal Fourth Quarter Results

WILSONVILLE, Ore., March 4, 2010 – Mentor Graphics Corporation (NASDAQ: MENT) today announced results for the fiscal fourth quarter and full year ending January 31, 2010. For the full year, the company reported revenues of \$802.7 million, up 2% from fiscal 2009, non-GAAP earnings per share more than doubling to \$.47, and a GAAP loss per share of \$.23, down from a loss per share of \$.99 the prior year. For the fiscal fourth quarter, the company reported revenues of \$237.1 million, non-GAAP earnings per share of \$.30, and GAAP earnings per share of \$.39.

“The electronics industry recovery seems to be well underway, and we are increasingly optimistic about the business environment in the coming year,” said Walden C. Rhines, CEO and chairman of Mentor Graphics. “The company’s focus on its product segments with number one market share, as well as investments in new product categories, continue to show strong results, as the average dollar value of renewals in the top ten contracts in the fiscal fourth quarter grew 25% over the prior contract values.”

During the quarter, the company extended its Catapult[®] C Synthesis product to support the SystemC design language, allowing designers a richer set of choices in doing system level design. The company also launched its Tessent[™] YieldInsight[™] product, which

allows customers to use integrated circuit production fault data to understand where those faults are physically located on the chip, thus allowing them to be corrected.

“Our strong emphasis on cost controls throughout fiscal 2010 has positioned us well,” said Gregory K. Hinckley, president of Mentor Graphics. “An improving currency environment, good performance in our new and emerging product segment and recovery in our base business all point to a better year in fiscal 2011.”

Outlook

For the fiscal first quarter ending April 30, 2010, the company expects revenues of approximately \$180 million and break-even to a loss per share of \$.05, on both a GAAP and non-GAAP basis.

For the full year fiscal 2011, ending January 31, 2011, the company expects revenues to grow around 5%.

Fiscal Year Definition

Mentor Graphics fiscal year runs from February 1 to January 31. The fiscal year is dated by the calendar year in which the fiscal year ends. As a result, the first three fiscal quarters of any fiscal year will be dated with the next calendar year, rather than the current calendar year.

Adoption of Accounting Guidance for Convertible Debt

During the first quarter of fiscal 2010, Mentor Graphics adopted the Financial Accounting Standard Board's (FASB) new accounting guidance for accounting for convertible debt instruments that may be settled in cash upon conversion. This new guidance requires retroactive application to all prior periods reported. Accordingly, we have adjusted the applicable prior period balance sheets, statements of operations (including net income (loss) per share), and statements of cash flows to reflect the adjusted balance of the convertible notes and related items, and to record the amortization of the discount on the convertible notes as a non-cash interest expense. A reconciliation of our adjusted Consolidated Balance Sheets as of January 31, 2009, our adjusted Consolidated Statements of Operations, and our adjusted Consolidated Statements of Cash Flows for the three and twelve months ended January 31, 2009 prior to the adoption of the new accounting guidance is included with this release. Interest expense associated with the adoption of the guidance was \$632 thousand for the three months ended January 31, 2009 and \$2,450 thousand for the twelve months ended January 31, 2009. There was no impact to cash flows from operations.

Discussion of Non-GAAP Financial Measures

Mentor Graphics management evaluates and makes operating decisions using various performance measures. In addition to our GAAP results, we also consider adjusted gross margin, operating margin, net income (loss), and earnings (loss) per share which we refer to as non-GAAP gross margin, operating margin, net income (loss) and earnings (loss) per share, respectively. These non-GAAP measures are derived from the revenues of our product, maintenance, and services business operations and the costs directly related to the generation of those revenues, such as cost of revenue, research and development, sales and marketing, and general and administrative expenses, that management considers in evaluating our

ongoing core operating performance. These non-GAAP measures exclude amortization of intangible assets, in-process research and development, special charges, equity plan-related compensation expenses and charges, interest expense attributable to net retirement premiums or discounts on the early retirement of debt and associated debt issuance costs, interest expense associated with the amortization of debt discount on convertible debt, impairment of long-lived assets, impairment of cost method investments, and the equity in income or losses of unconsolidated entities, which management does not consider reflective of our core operating business.

Identified intangible assets consist primarily of purchased technology, backlog, trade names, customer relationships, and employment agreements. In-process research and development charges generally represent products in development that had not reached technological feasibility at the time of acquisition. Special charges primarily consist of costs incurred for employee terminations due to a reduction of personnel resources driven by modifications of business strategy or business emphasis. Special charges may also include expenses incurred related to potential acquisitions, excess facility costs, asset-related charges, post-acquisition rebalance costs and restructuring costs, including severance and benefits. Equity plan-related compensation expenses represent the fair value of all share-based payments to employees, including grants of employee stock options. For purposes of comparability across other periods and against other companies in our industry, non-GAAP net income (loss) is adjusted by the amount of additional tax expense or benefit that we would accrue using a normalized effective tax rate applied to the non-GAAP results.

Management excludes from our non-GAAP measures certain recurring items to facilitate its review of the comparability of our core operating performance on a period-to-period basis because such items are not related to our ongoing core operating performance as viewed by management. Management considers our core operating performance to be that which can be affected by our managers in any particular period through their management of the resources that affect our underlying revenue and profit generating operations during that period. Management uses this view of our operating performance for purposes of comparison with our business plan and individual operating budgets and allocation of resources. Additionally, when evaluating potential acquisitions, management excludes the items described above from its consideration of target performance and valuation. More specifically, management adjusts for the excluded items for the following reasons:

- Amortization charges for our intangible assets are inconsistent in amount and frequency and are significantly impacted by the timing and magnitude of our acquisition transactions. We therefore consider our operating results without these charges when evaluating our core performance. Generally, the most significant impact to inter-period comparability of our net income (loss) is in the first twelve months following an acquisition.
- Prior to adopting the FASB's authoritative guidance on business combinations in February 2009, in-process research and development was expensed upon acquisition. These charges are largely disregarded as acquisition decisions are made since they often result in charges that vary significantly in size and amount. Management excludes these charges when evaluating the impact of an acquisition transaction and our ongoing performance.
- Special charges are incurred based on the particular facts and circumstances of acquisition and restructuring decisions and can vary in size and frequency. These charges are not ordinarily included in our annual operating plan and related budget due the unpredictability of economic trends and the rapidly changing technology and competitive environment in our industry. We therefore exclude them when evaluating our managers' performance internally.
- We view equity plan-related compensation as a key element of our employee retention and long-term incentives, not as an expense that we use in evaluating core operations in any given period. Management also believes this information is useful to investors to compare our performance to the performance of other companies in our industry who present non-GAAP results adjusted to exclude stock compensation expense.

- Interest expense attributable to net retirement premiums or discounts on the early retirement of debt, the write-off of associated debt issuance costs and the amortization of the debt discount on convertible debt are excluded. Management does not consider these charges as a part of our core operating performance. The early retirement of debt and the associated debt issuance costs is not included in our annual operating plan and related budget due to unpredictability of market conditions which could facilitate an early retirement of debt. We do not consider the amortization of the debt discount on convertible debt to be a direct cost of operations. We also believe this presentation is more useful to investors in comparing our performance to the performance of other companies in our industry who present non-GAAP results adjusted to exclude such items.
- Impairment of cost method investments can occur when the fair value of the investment is less than its cost. This can occur when there is a significant deterioration in the investee's earnings performance, significant adverse changes in the general market conditions of the industry in which the investee operates, or indications that the investee may no longer be able to conduct business. These charges are inconsistent in amount and frequency. We therefore consider our operating results without these charges when evaluating our core performance.
- Equity in income or losses of unconsolidated subsidiaries represents the net income (losses) in an investment accounted for under the equity method. The amounts represent our equity in the net income (losses) of a common stock investment. The carrying amount of our investment is adjusted for our share of earnings or losses of the investee. The amounts are excluded as we do not control the results of operations for these investments and management does not consider this activity a part of our core operating performance.
- Income tax expense (benefit) is adjusted by the amount of additional tax expense or benefit that we would accrue if we used non-GAAP results instead of GAAP results in the calculation of our tax liability, taking into consideration our long-term tax structure. We use a normalized effective tax rate of 17%, which reflects the weighted average tax rate applicable under the various tax jurisdictions in which we operate. This non-GAAP weighted average tax rate is subject to change over time for various reasons, including changes in the geographic business mix and changes in statutory tax rates. Our GAAP tax rate for the fiscal year ended January 31, 2010 is (11%). The GAAP tax rate considers certain mandatory and other non-scalable tax costs which may adversely or beneficially affect our tax rate depending upon our level of profitability in various jurisdictions.

In certain instances our GAAP results of operations may not be profitable when our corresponding non-GAAP results are profitable or vice versa. The number of shares on which our non-GAAP earnings per share is calculated may therefore differ from the GAAP presentation due to the anti-dilutive effect of stock options in a loss situation.

Non-GAAP gross margin, operating margin, and net income (loss) are supplemental measures of our performance that are not required by, or presented in accordance with, GAAP. Moreover, they should not be considered as an alternative to any performance measure derived in accordance with GAAP, or as an alternative to cash flow from operating activities as a measure of our liquidity. We present non-GAAP gross margin, operating margin, and net income (loss) because we consider them to be important supplemental measures of our operating performance and profitability trends, and because we believe they give investors useful information on period-to-period performance as evaluated by management. Non-GAAP net income (loss) also facilitates comparison with other companies in our industry, which use similar financial measures to supplement their GAAP results. Non-GAAP net income (loss) has limitations as an analytical tool, and therefore should not be considered in isolation or as a substitute for analysis of our results as reported under GAAP. In the future we expect to continue to incur expenses similar to the non-GAAP adjustments described above and exclusion of these items in our non-GAAP presentation should not be construed as an inference that these costs are unusual, infrequent or non-recurring. Some of the limitations in relying on non-GAAP net income (loss) are:

- Amortization of intangibles represents the loss in value as the technology in our industry evolves, is advanced, or is replaced over time. The expense associated with this loss in value is not included in the non-GAAP net income (loss) presentation and therefore does not reflect the full economic effect of the ongoing cost of maintaining our current technological position in our competitive industry, which is addressed through our research and development program.
- We regularly engage in acquisition and assimilation activities as part of our ongoing business and regularly evaluate our businesses to determine whether any operations should be eliminated or curtailed. We therefore will continue to experience special charges on a regular basis. These costs also directly impact our available funds.
- We perform impairment analyses on cost method investments when triggering events occur and adjust the carrying value of assets when we determine it to be necessary. Impairment charges could therefore be incurred in any period.
- Our stock option and stock purchase plans are important components of our incentive compensation arrangements and will be reflected as expenses in our GAAP results.
- Our income tax expense (benefit) will be ultimately based on our GAAP taxable income and actual tax rates in effect, which often differ significantly from the 17% rate assumed in our non-GAAP presentation.
- Other companies, including other companies in our industry, calculate non-GAAP net income (loss) differently than we do, limiting its usefulness as a comparative measure.

About Mentor Graphics

Mentor Graphics Corporation (NASDAQ: MENT) is a world leader in electronic hardware and software design solutions, providing products, consulting services and award-winning support for the world's most successful electronics and semiconductor companies. Established in 1981, the company reported revenues over the last 12 months of about \$800 million and employs approximately 4,425 people worldwide. Corporate headquarters are located at 8005 S.W. Boeckman Road, Wilsonville, Oregon 97070-7777. World Wide Web site: <http://www.mentor.com/>.

(Mentor Graphics and Catapult are registered trademarks and Tessent and YieldInsight are trademarks of Mentor Graphics Corporation. All other company or product names are the registered trademarks or trademarks of their respective owners.)

Statements in this press release regarding the company's guidance for future periods constitute "forward-looking" statements based on current expectations within the meaning of the Securities Exchange Act of 1934. Such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of the company or industry results to be materially different from any results, performance or achievements expressed or implied by such forward-looking statements. Such factors include, among others, the following: (i) reductions in the spending on the company's products and services by its customers due to the current worldwide downturn, and the company's ability to appropriately reduce its expenses in response; (ii) the company's ability to successfully offer products and services that compete in the highly competitive EDA industry; (iii) product

bundling or discounting of products and services by competitors, which could force the company to lower its prices; (iv) effects of the increasing volatility of foreign currency fluctuations on the company's business and operating results; (v) changes in accounting or reporting rules or interpretations; (vi) the impact of tax audits by the IRS or other taxing authorities, or changes in the tax laws, regulations or enforcement practices; (vii) effects of unanticipated shifts in product mix on gross margin; and (viii) effects of customer seasonal purchasing patterns and the timing of significant orders which may negatively or positively impact the company's quarterly results of operations, all as may be discussed in more detail under the heading "Risk Factors" in the company's most recent Form 10-K or Form 10-Q. Given these uncertainties, prospective investors are cautioned not to place undue reliance on such forward-looking statements. In addition, statements regarding guidance do not reflect potential impacts of mergers or acquisitions that have not been announced or closed as of the time the statements are made. Mentor Graphics disclaims any obligation to update any such factors or to publicly announce the results of any revisions to any of the forward-looking statements to reflect future events or developments.

MENTOR GRAPHICS CORPORATION
UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except earnings per share data)

	Three Months Ended January 31,		Twelve Months Ended January 31,	
	2010	2009	2010	2009
Revenues:				
System and software	\$ 153,847	\$ 157,566	\$ 479,493	\$ 447,551
Service and support	83,288	85,072	323,234	341,550
Total revenues	<u>237,135</u>	<u>242,638</u>	<u>802,727</u>	<u>789,101</u>
Cost of revenues: (1)				
System and software	5,226	4,583	22,592	17,787
Service and support	22,130	23,280	85,265	97,002
Amortization of purchased technology	3,047	3,363	12,012	12,403
Total cost of revenues	<u>30,403</u>	<u>31,226</u>	<u>119,869</u>	<u>127,192</u>
Gross margin	<u>206,732</u>	<u>211,412</u>	<u>682,858</u>	<u>661,909</u>
Operating expenses:				
Research and development (2)	68,111	66,572	255,538	260,351
Marketing and selling (3)	82,585	91,338	303,709	317,473
General and administration (4)	24,170	23,545	91,638	95,038
Other general expense (income), net	48	245	622	(24)
Amortization of intangible assets (5)	2,630	3,014	11,184	11,113
Special charges (6)	5,444	1,789	21,334	16,888
Impairment of long-lived assets (7)	-	4,553	-	4,553
In-process research and development (8)	-	-	-	22,075
Total operating expenses	<u>182,988</u>	<u>191,056</u>	<u>684,025</u>	<u>727,467</u>
Operating income (loss)	<u>23,744</u>	<u>20,356</u>	<u>(1,167)</u>	<u>(65,558)</u>
Other income (expense), net (9)	334	(319)	(928)	4,510
Interest expense (10) ^a	(4,287)	(5,306)	(17,546)	(19,354)
Income (loss) before income tax	19,791	14,731	(19,641)	(80,402)
Income tax expense (benefit) (11)	(19,576)	(16,174)	2,248	10,850
Net income (loss)	<u>\$ 39,367</u>	<u>\$ 30,905</u>	<u>\$ (21,889)</u>	<u>\$ (91,252)</u>
Net income (loss) per share:				
Basic	<u>\$ 0.40</u>	<u>\$ 0.33</u>	<u>\$ (0.23)</u>	<u>\$ (0.99)</u>
Diluted ^b	<u>\$ 0.39</u>	<u>\$ 0.33</u>	<u>\$ (0.23)</u>	<u>\$ (0.99)</u>
Weighted average number of shares outstanding:				
Basic	<u>98,970</u>	<u>92,859</u>	<u>96,474</u>	<u>91,829</u>
Diluted ^b	<u>101,750</u>	<u>94,452</u>	<u>96,474</u>	<u>91,829</u>

Refer to following page for a description of footnotes.

^a Interest expense for the three and twelve months ended January 31, 2009 presentation has been adjusted for the retrospective adoption of the FASB's convertible debt accounting guidance.

^b Diluted net income per share includes \$125 and \$278 of convertible debt interest, net of tax added back to GAAP net income for the three months ended January 31, 2010 and 2009, respectively. Diluted weighted average number of shares outstanding includes the 1,379 and 1,543 corresponding dilutive shares for the three months ended January 31, 2010 and 2009, respectively.

MENTOR GRAPHICS CORPORATION
FOOTNOTES TO UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands)

Listed below are the items included in net income that management excludes in computing the non-GAAP financial measures referred to in the text of this press release. Items are further described under "Discussion of Non-GAAP Financial Measures."

	Three Months Ended January 31,		Twelve Months Ended January 31,	
	2010	2009	2010	2009
(1) Cost of revenues:				
Equity plan-related compensation	\$ 300	\$ 442	\$ 1,618	\$ 1,544
Prepaid royalty costs	-	-	-	103
Amortization of purchased technology	3,047	3,363	12,012	12,403
	<u>\$ 3,347</u>	<u>\$ 3,805</u>	<u>\$ 13,630</u>	<u>\$ 14,050</u>
(2) Research and development:				
Equity plan-related compensation	\$ 2,052	\$ 3,175	\$ 10,931	\$ 12,005
(3) Marketing and selling:				
Equity plan-related compensation	\$ 1,622	\$ 2,256	\$ 8,406	\$ 8,627
(4) General and administration:				
Equity plan-related compensation	\$ 1,209	\$ 1,217	\$ 5,204	\$ 6,047
(5) Amortization of intangible assets:				
Amortization of other identified intangible assets	\$ 2,630	\$ 3,014	\$ 11,184	\$ 11,113
(6) Special charges:				
Rebalance, restructuring, and other costs	\$ 5,444	\$ 1,789	\$ 21,334	\$ 16,888
(7) Impairment of long-lived assets:				
Impairment of long-lived assets	\$ -	\$ 4,553	\$ -	\$ 4,553
(8) In-process research and development:				
In-process research and development	\$ -	\$ -	\$ -	\$ 22,075
(9) Other income (expense), net:				
Equity in losses of unconsolidated entities and impairment of investments	\$ 257	\$ 3,832	\$ 1,108	\$ 4,920
(10) Interest expense^a:				
Amortization of debt discount	\$ 713	\$ 655	\$ 2,764	\$ 2,540
Debt retirement costs	-	-	(354)	-
	<u>\$ 713</u>	<u>\$ 655</u>	<u>\$ 2,410</u>	<u>\$ 2,540</u>
(11) Income tax expense (benefit):				
Income tax effects	\$ (25,877)	\$ (22,809)	\$ (7,028)	\$ 7,039

^a Interest expense for the three and twelve months ended January 31, 2009 presentation has been adjusted for the retrospective adoption of the FASB's convertible debt accounting guidance.

MENTOR GRAPHICS CORPORATION
UNAUDITED RECONCILIATION OF NON-GAAP ADJUSTMENTS

(In thousands, except earnings per share data)

	<u>Three Months Ended January 31,</u>		<u>Twelve Months Ended January 31,</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
GAAP net income (loss) ^a	\$ 39,367	\$ 30,905	\$ (21,889)	\$ (91,252)
Non-GAAP adjustments:				
Equity plan-related compensation: (1)				
Cost of revenues	300	442	1,618	1,544
Research and development	2,052	3,175	10,931	12,005
Marketing and selling	1,622	2,256	8,406	8,627
General and administration	1,209	1,217	5,204	6,047
System and software cost of revenues (2)	-	-	-	103
Acquisition - related items:				
Amortization of purchased assets				
Cost of revenues (3)	3,047	3,363	12,012	12,403
Amortization of intangible assets (4)	2,630	3,014	11,184	11,113
Impairment of long-lived assets (5)	-	4,553	-	4,553
In-process research and development (6)	-	-	-	22,075
Special charges (7)	5,444	1,789	21,334	16,888
Other income, net (8)	257	3,832	1,108	4,920
Interest expense ⁽⁹⁾	713	655	2,410	2,540
Income tax effects (10)	(25,877)	(22,809)	(7,028)	(7,039)
Total of non-GAAP adjustments	<u>(8,603)</u>	<u>1,487</u>	<u>67,179</u>	<u>109,857</u>
Non-GAAP net income ^a	<u>\$ 30,764</u>	<u>\$ 32,392</u>	<u>\$ 45,290</u>	<u>\$ 18,605</u>
GAAP weighted average shares (diluted)	101,750	94,452	96,474	91,829
Non-GAAP adjustment	-	-	1,901	714
Non-GAAP weighted average shares (diluted) ^b	<u>101,750</u>	<u>94,452</u>	<u>98,375</u>	<u>92,543</u>
GAAP net income (loss) per share (diluted) ^{a,b}	\$ 0.39	\$ 0.33	\$ (0.23)	\$ (0.99)
Non-GAAP adjustments detailed above	(0.09)	0.02	0.70	1.19
Non-GAAP net income per share (diluted) ^{a,c}	<u>\$ 0.30</u>	<u>\$ 0.35</u>	<u>\$ 0.47</u>	<u>\$ 0.20</u>

^a The three and twelve months ended January 31, 2009 presentations have been adjusted for the retrospective adoption of the FASB's convertible debt accounting guidance.

^b Diluted net income per share includes \$125 and \$278 of convertible debt interest, net of tax added back to GAAP net income for the three months ended January 31, 2010 and 2009, respectively. Diluted weighted average number of shares outstanding includes the 1,379 and 1,543 corresponding dilutive shares for the three months ended January 31, 2010 and 2009, respectively.

^c Diluted non-GAAP net income per share for the twelve months ended January 31, 2010 includes \$633 of convertible debt interest, net of tax added back to non-GAAP net income and 1,415 of corresponding diluted weighted average number of shares outstanding. Diluted non-GAAP net income per share for the twelve months ended January 31, 2009 did not meet the threshold for dilution.

- (1) Equity plan-related compensation expense.
- (2) Amount represents the write-off of prepaid royalty amounts associated with the closure of our Intellectual Property division.
- (3) Amount represents amortization of purchased technology resulting from acquisitions. Purchased intangible assets are amortized over two to five years.
- (4) Other identified intangible assets are amortized to other operating expense over two to five years. Other identified intangible assets include trade names, employment agreements, customer relationships, and deferred compensation which are the result of acquisition transactions.
- (5) Amount represents write-off of fixed assets and purchased technology associated with our emulation division.
- (6) *Twelve months ended January 31, 2009:* Write-off of \$8,090 for in-process research and development related to the Ponte and Flomerics acquisitions and \$13,985 related to the acquisition of technology which has not yet reached technological feasibility and provided no alternative future uses. The technology is expected to be the basis for a new offering in the Calibre product family once development is completed.
- (7) *Three months ended January 31, 2010:* Special charges consist of (i) \$1,717 of costs incurred for employee rebalances which includes severance benefits, notice pay, and outplacement services, (ii) \$1,547 related to the abandonment of excess leased facility space, (iii) \$1,175 in advisory fees, (iv) \$405 related to an asset abandonment, (v) \$302 in lease restoration costs, and (vi) \$298 in acquisition costs.
Three months ended January 31, 2009: Special charges consist of (i) \$1,190 in advisory fees and (ii) \$599 of costs incurred for employee rebalances which includes severance benefits, notice pay and outplacement services.
Twelve months ended January 31, 2010: Special charges consist of (i) \$10,713 of costs incurred for employee rebalances which includes severance benefits, notice pay, and outplacement services, (ii) \$4,700 in advisory fees, (iii) \$2,530 relate to the abandonment of excess leased facility space, (iv) \$2,067 in acquisition costs, (v) \$566 related to a casualty loss, (vi) \$405 related to an asset abandonment, (vii) \$302 in lease restoration costs, and (viii) \$51 in other costs.
Twelve months ended January 31, 2009: Special charges consist of (i) \$9,793 of costs incurred for employee rebalances which includes severance benefits, notice pay, and outplacement services, (ii) \$4,535 in advisory fees, (iii) \$2,547 related to the abandonment of excess leased facility space, and (iv) \$13 in fixed asset write-offs related to the closure of our Intellectual Property Division.
- (8) *Three months ended January 31, 2010:* Loss of \$257 on investment accounted for under the equity method of accounting.
Three months ended January 31, 2009: Other income, net consists of: (i) loss of \$344 on investment accounted for under the equity method of accounting and (ii) an impairment of \$3,488 for investments accounted for under the cost method.
Twelve months ended January 31, 2010: Other income, net consists of: (i) loss of \$995 on investment accounted for under the equity method of accounting and (ii) an impairment of \$113 for an investment accounted for under the cost method.
Twelve months ended January 31, 2009: Other income, net consists of: (i) loss of \$1,432 on investment accounted for under the equity method of accounting and (ii) an impairment of \$3,488 for investments accounted for under the cost method.
- (9) *Three months ended January 31, 2010:* \$713 in amortization of original issuance debt discount.
Three months ended January 31, 2009: \$655 in amortization of original issuance debt discount.
Twelve months ended January 31, 2010: \$2,764 in amortization of original issuance debt discount and \$(354) in discounts and unamortized debt costs related to a partial redemption of the \$110.0M convertible debt.
Twelve months ended January 31, 2009: \$2,540 in amortization of original issuance debt discount.
- (10) Non-GAAP income tax expense adjustment reflects the application of our assumed normalized effective 17% tax rate, instead of our GAAP tax rate, to our non-GAAP pre-tax income.

MENTOR GRAPHICS CORPORATION
UNAUDITED RECONCILIATION OF GAAP FINANCIAL MEASURES TO NON-GAAP FINANCIAL MEASURES
(In thousands, except percentages)

	Three Months Ended January 31,		Twelve Months Ended January 31,	
	2010	2009	2010	2009
GAAP gross margin	\$ 206,732	\$ 211,412	\$ 682,858	\$ 661,909
Reconciling items to non-GAAP gross margin				
Equity plan-related compensation	300	442	1,618	1,544
Prepaid royalty costs	-	-	-	103
Amortization of purchased technology	3,047	3,363	12,012	12,403
Non-GAAP gross margin	<u>\$ 210,079</u>	<u>\$ 215,217</u>	<u>\$ 696,488</u>	<u>\$ 675,959</u>

	Three Months Ended January 31,		Twelve Months Ended January 31,	
	2010	2009	2010	2009
GAAP gross margin as a percent of total revenues	87%	87%	85%	84%
Non-GAAP adjustments detailed above	2%	2%	2%	2%
Non-GAAP gross margin as a percent of total revenues	<u>89%</u>	<u>89%</u>	<u>87%</u>	<u>86%</u>

	Three Months Ended January 31,		Twelve Months Ended January 31,	
	2010	2009	2010	2009
GAAP operating expenses	\$ 182,988	\$ 191,056	\$ 684,025	\$ 727,467
Reconciling items to non-GAAP operating expenses				
Equity plan-related compensation	(4,883)	(6,648)	(24,541)	(26,679)
Amortization of other identified intangible assets	(2,630)	(3,014)	(11,184)	(11,113)
Special charges	(5,444)	(1,789)	(21,334)	(16,888)
Impairment of long-lived assets	-	(4,553)	-	(4,553)
In-process research and development	-	-	-	(22,075)
Non-GAAP operating expenses	<u>\$ 170,031</u>	<u>\$ 175,052</u>	<u>\$ 626,966</u>	<u>\$ 646,159</u>

	Three Months Ended January 31,		Twelve Months Ended January 31,	
	2010	2009	2010	2009
GAAP operating income (loss)	\$ 23,744	\$ 20,356	\$ (1,167)	\$ (65,558)
Reconciling items to non-GAAP operating income				
Equity plan-related compensation	5,183	7,090	26,159	28,223
Prepaid royalty costs	-	-	-	103
Amortization of purchased intangible assets:				
Cost of revenues	3,047	3,363	12,012	12,403
Amortization of intangible assets	2,630	3,014	11,184	11,113
Special Charges	5,444	1,789	21,334	16,888
Impairment of long-lived assets	-	4,553	-	4,553
In-process research and development	-	-	-	22,075
Non-GAAP operating income	<u>\$ 40,048</u>	<u>\$ 40,165</u>	<u>\$ 69,522</u>	<u>\$ 29,800</u>

	Three Months Ended January 31,		Twelve Months Ended January 31,	
	2010	2009	2010	2009
GAAP operating income (loss) as a percent of total revenues	10%	8%	0%	-8%
Non-GAAP adjustments detailed above	7%	9%	9%	12%
Non-GAAP operating income (loss) as a percent of total revenues	<u>17%</u>	<u>17%</u>	<u>9%</u>	<u>4%</u>

	Three Months Ended January 31,		Twelve Months Ended January 31,	
	2010	2009	2010	2009
GAAP other income, net and interest expense ^a	\$ (3,953)	\$ (5,625)	\$ (18,474)	\$ (14,844)
Reconciling items to non-GAAP other income, net and interest expense				
Equity in losses of unconsolidated entities	257	344	1,108	1,432
Impairment of cost method investments	-	3,488	-	3,488
Amortization of debt discount and retirement costs	713	655	2,410	2,540
Non-GAAP other income, net and interest expense ^a	<u>\$ (2,983)</u>	<u>\$ (1,138)</u>	<u>\$ (14,956)</u>	<u>\$ (7,384)</u>

^a The three and twelve months ended January 31, 2009 presentations have been adjusted for the retrospective adoption of the FASB's convertible debt accounting guidance.

MENTOR GRAPHICS CORPORATION
UNAUDITED CONSOLIDATED BALANCE SHEETS

(In thousands)

	January 31, 2010	January 31, 2009^a
	<u> </u>	<u> </u>
Assets		
Current assets:		
Cash, cash equivalents, and short-term investments	\$ 99,343	\$ 95,639
Trade accounts receivable, net	110,839	133,719
Term receivables, short-term	178,911	139,133
Prepaid expenses and other	29,629	39,146
Deferred income taxes	<u>11,891</u>	<u>10,163</u>
Total current assets	430,613	417,800
Property, plant, and equipment, net	121,795	100,991
Term receivables, long-term	164,898	146,682
Goodwill and intangible assets, net	484,342	480,956
Other assets	<u>21,393</u>	<u>39,641</u>
Total assets	<u>\$ 1,223,041</u>	<u>\$ 1,186,070</u>
Liabilities and Stockholders' Equity		
Current liabilities:		
Short-term borrowings	\$ 37,874	\$ 36,998
Current portion of notes payable	32,272	-
Accounts payable	9,985	10,197
Income taxes payable	3,971	5,340
Accrued payroll and related liabilities	77,008	62,453
Accrued liabilities	44,122	46,034
Deferred revenue	<u>153,965</u>	<u>155,098</u>
Total current liabilities	359,197	316,120
Long-term notes payable	156,075	188,170
Deferred revenue, long-term	9,534	16,890
Other long-term liabilities	<u>58,218</u>	<u>78,445</u>
Total liabilities	<u>583,024</u>	<u>599,625</u>
Stockholders' equity:		
Common stock	662,595	602,064
Accumulated deficit	(48,742)	(26,853)
Accumulated other comprehensive income	<u>26,164</u>	<u>11,234</u>
Total stockholders' equity	<u>640,017</u>	<u>586,445</u>
Total liabilities and stockholders' equity	<u>\$ 1,223,041</u>	<u>\$ 1,186,070</u>

^aThe consolidated balance sheet as of January 31, 2009 has been adjusted for the retrospective adoption of the FASB's convertible debt accounting guidance.

MENTOR GRAPHICS CORPORATION
UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS AND SUPPLEMENTAL INFORMATION

(In thousands, except days sales outstanding)

	<u>Three Months Ended January 31,</u>		<u>Twelve Months Ended January 31,</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Operating activities				
Net income (loss) ^a	\$ 39,367	\$ 30,905	\$ (21,889)	\$ (91,252)
Depreciation and amortization ^a (1)	14,432	15,727	59,684	60,054
Other adjustments to reconcile:				
Operating cash	21,755	5,029	37,388	48,458
Changes in working capital	(70,619)	(34,058)	(37,294)	5,412
Net cash provided by operating activities	4,935	17,603	37,889	22,672
Investing activities				
Net cash used in investing activities	(30,037)	(8,064)	(49,938)	(90,078)
Financing activities				
Net cash provided by financing activities	39,718	4,384	16,942	44,510
Effect of exchange rate changes on cash and cash equivalents	73	2,126	805	(1,388)
Net change in cash and cash equivalents	14,689	16,049	5,698	(24,284)
Cash and cash equivalents at beginning of period	84,651	77,593	93,642	117,926
Cash and cash equivalents at end of period	<u>\$ 99,340</u>	<u>\$ 93,642</u>	<u>\$ 99,340</u>	<u>\$ 93,642</u>

^a The three and twelve months ended January 31, 2009 presentations have been adjusted for the retrospective adoption of the FASB's convertible debt accounting guidance.

(1) Depreciation and amortization includes a write-off of note issuance costs in the amount of \$26 for the twelve months ended January 31, 2010.

Other data:

Capital expenditures	<u>\$ 28,446</u>	<u>\$ 6,552</u>	<u>\$ 46,397</u>	<u>\$ 40,402</u>
Days sales outstanding	<u>110</u>	<u>101</u>		

MENTOR GRAPHICS CORPORATION
UNAUDITED SUPPLEMENTAL BOOKINGS AND REVENUE INFORMATION
(Rounded to nearest 5%)

	Fiscal year ended January 31, 2010				
	Q1	Q2	Q3	Q4	YEAR
Product Group Bookings (a)					
Integrated Systems Design	20%	20%	20%	20%	20%
IC Design to Silicon	40%	40%	35%	40%	40%
Scalable Verification	20%	25%	15%	20%	20%
New & Emerging Products	10%	5%	20%	15%	10%
Services & Other (b)	10%	10%	10%	5%	10%
Total	100%	100%	100%	100%	100%

Fiscal year ended January 31, 2009					
Q1	Q2	Q3	Q4	YEAR	
15%	20%	25%	15%	20%	
40%	30%	30%	40%	35%	
20%	20%	20%	30%	20%	
10%	20%	15%	10%	15%	
15%	10%	10%	5%	10%	
100%	100%	100%	100%	100%	

Fiscal year ended January 31, 2008					
Q1	Q2	Q3	Q4	YEAR	
15%	20%	20%	15%	20%	
40%	35%	30%	40%	35%	
20%	25%	20%	20%	25%	
15%	15%	20%	20%	15%	
10%	5%	10%	5%	5%	
100%	100%	100%	100%	100%	

	Fiscal year ended January 31, 2010				
	Q1	Q2	Q3	Q4	YEAR
Product Group Revenue (b)					
Integrated Systems Design	20%	20%	30%	25%	25%
IC Design to Silicon	45%	35%	30%	35%	35%
Scalable Verification	20%	25%	20%	20%	25%
New & Emerging Products	10%	10%	10%	15%	10%
Services & Other (b)	5%	10%	10%	5%	5%
Total	100%	100%	100%	100%	100%

Fiscal year ended January 31, 2009					
Q1	Q2	Q3	Q4	YEAR	
20%	20%	25%	20%	20%	
40%	30%	30%	35%	35%	
20%	25%	25%	30%	25%	
10%	15%	10%	10%	10%	
10%	10%	10%	5%	10%	
100%	100%	100%	100%	100%	

Fiscal year ended January 31, 2008					
Q1	Q2	Q3	Q4	YEAR	
20%	20%	25%	20%	20%	
40%	40%	25%	30%	35%	
20%	20%	25%	30%	25%	
10%	15%	15%	15%	15%	
10%	5%	10%	5%	5%	
100%	100%	100%	100%	100%	

	Fiscal year ended January 31, 2010				
	Q1	Q2	Q3	Q4	YEAR
Bookings by Geography					
North America	40%	55%	45%	40%	45%
Europe	25%	25%	15%	25%	20%
Japan	25%	5%	20%	15%	15%
Pac Rim	10%	15%	20%	20%	20%
Total	100%	100%	100%	100%	100%

Fiscal year ended January 31, 2009					
Q1	Q2	Q3	Q4	YEAR	
40%	30%	40%	35%	35%	
35%	35%	35%	35%	35%	
15%	20%	10%	5%	15%	
10%	15%	15%	25%	15%	
100%	100%	100%	100%	100%	

Fiscal year ended January 31, 2008					
Q1	Q2	Q3	Q4	YEAR	
50%	40%	45%	30%	40%	
25%	30%	15%	30%	25%	
10%	10%	20%	20%	15%	
15%	20%	20%	20%	20%	
100%	100%	100%	100%	100%	

	Fiscal year ended January 31, 2010				
	Q1	Q2	Q3	Q4	YEAR
Revenue by Geography					
North America	40%	50%	40%	40%	45%
Europe	20%	30%	25%	30%	25%
Japan	20%	5%	15%	15%	15%
Pac Rim	20%	15%	20%	15%	15%
Total	100%	100%	100%	100%	100%

Fiscal year ended January 31, 2009					
Q1	Q2	Q3	Q4	YEAR	
40%	35%	40%	40%	40%	
30%	30%	35%	35%	30%	
20%	20%	10%	10%	15%	
10%	15%	15%	15%	15%	
100%	100%	100%	100%	100%	

Fiscal year ended January 31, 2008					
Q1	Q2	Q3	Q4	YEAR	
50%	55%	40%	40%	45%	
25%	20%	25%	30%	25%	
15%	10%	20%	15%	15%	
10%	15%	15%	15%	15%	
100%	100%	100%	100%	100%	

	Fiscal year ended January 31, 2010				
	Q1	Q2	Q3	Q4	YEAR
Bookings by Business Model (c)					
Perpetual	15%	25%	20%	10%	15%
Ratable	15%	15%	15%	15%	15%
Up Front	70%	60%	65%	75%	70%
Total	100%	100%	100%	100%	100%

Fiscal year ended January 31, 2009					
Q1	Q2	Q3	Q4	YEAR	
20%	20%	20%	10%	15%	
25%	20%	15%	10%	15%	
55%	60%	65%	80%	70%	
100%	100%	100%	100%	100%	

Fiscal year ended January 31, 2008					
Q1	Q2	Q3	Q4	YEAR	
30%	25%	30%	10%	20%	
20%	20%	10%	10%	15%	
50%	55%	60%	80%	65%	
100%	100%	100%	100%	100%	

	Fiscal year ended January 31, 2010				
	Q1	Q2	Q3	Q4	YEAR
Revenue by Business Model (c)					
Perpetual	15%	25%	15%	10%	15%
Ratable	10%	15%	15%	10%	15%
Up Front	75%	60%	70%	80%	70%
Total	100%	100%	100%	100%	100%

Fiscal year ended January 31, 2009					
Q1	Q2	Q3	Q4	YEAR	
20%	20%	20%	10%	15%	
20%	20%	20%	10%	15%	
60%	60%	60%	80%	70%	
100%	100%	100%	100%	100%	

Fiscal year ended January 31, 2008					
Q1	Q2	Q3	Q4	YEAR	
25%	20%	20%	15%	20%	
15%	15%	20%	10%	15%	
60%	65%	60%	75%	65%	
100%	100%	100%	100%	100%	

(a) Product Group Bookings excludes support bookings for all sub-flow categories.
(b) Product Group Revenue includes support revenue for each sub-flow category as appropriate.
(c) Bookings and Revenue by Business Model are System and Software only.

MENTOR GRAPHICS CORPORATION
UNAUDITED IMPACT OF ACCOUNTING CHANGE

(In thousands)

Impact of Retrospective Adoption of FASB's Convertible Debt Accounting Guidance on the Unaudited Consolidated Statement of Operations:

	Three months ended January 31, 2009		
	Prior to Adoption	Effect of Change	As Adjusted
Operating income	\$ 20,356	-	\$ 20,356
Other expense, net	(319)	-	(319)
Interest expense	(4,674)	(632)	(5,306)
Income before income tax	15,363	(632)	14,731
Income tax benefit	(16,174)	-	(16,174)
Net income	<u>\$ 31,537</u>	<u>\$ (632)</u>	<u>\$ 30,905</u>
Basic net income per share	<u>\$ 0.34</u>	<u>\$ (0.01)</u>	<u>\$ 0.33</u>
Diluted net income per share	<u>\$ 0.34</u>	<u>\$ (0.01)</u>	<u>\$ 0.33</u>

	Twelve months ended January 31, 2009		
	Prior to Adoption	Effect of Change	As Adjusted
Operating loss	\$ (65,558)	-	\$ (65,558)
Other income, net	4,510	-	4,510
Interest expense	(16,904)	(2,450)	(19,354)
Loss before income tax	(77,952)	(2,450)	(80,402)
Income tax expense	10,850	-	10,850
Net loss	<u>\$ (88,802)</u>	<u>\$ (2,450)</u>	<u>\$ (91,252)</u>
Basic and diluted net loss per share	<u>\$ (0.97)</u>	<u>\$ (0.02)</u>	<u>\$ (0.99)</u>

Impact of Retrospective Adoption of FASB's Convertible Debt Accounting Guidance on the Unaudited Consolidated Balance Sheet:

As of January 31, 2009	Prior to Adoption	Effect of Change	As Adjusted
Assets			
Current assets:			
Cash, cash equivalents and short-term investments	\$ 95,639	\$ -	\$ 95,639
Trade accounts receivable, net	133,719	-	133,719
Term receivables, short-term	139,133	-	139,133
Prepaid expenses and other	39,236	(90)	39,146
Deferred income taxes	10,163	-	10,163
Total current assets	417,890	(90)	417,800
Property, plant, and equipment	100,991	-	100,991
Term receivables, long-term	146,682	-	146,682
Goodwill and intangible assets, net	480,956	-	480,956
Other assets	39,918	(277)	39,641
Total assets	<u>\$ 1,186,437</u>	<u>\$ (367)</u>	<u>\$ 1,186,070</u>
Liabilities and Stockholders' Equity			
Total current liabilities	\$ 316,120	\$ -	\$ 316,120
Long-term notes payable	201,102	(12,932)	188,170
Deferred revenue, long-term	16,890	-	16,890
Other long-term liabilities	78,445	-	78,445
Total liabilities	<u>612,557</u>	<u>(12,932)</u>	<u>599,625</u>
Stockholders' equity:			
Common stock	580,298	21,766	602,064
Accumulated deficit	(17,652)	(9,201)	(26,853)
Accumulated other comprehensive income	11,234	-	11,234
Total stockholders' equity	<u>573,880</u>	<u>12,565</u>	<u>586,445</u>
Total liabilities and stockholders' equity	<u>\$ 1,186,437</u>	<u>\$ (367)</u>	<u>\$ 1,186,070</u>

MENTOR GRAPHICS CORPORATION
UNAUDITED IMPACT OF ACCOUNTING CHANGE

(In thousands)

Impact of Retrospective Adoption of FASB's Convertible Debt Accounting Guidance on the Unaudited Consolidated Statement of Cash Flows:

	Three months ended January 31, 2009		
	Prior to Adoption	Effect of Change	As Adjusted
Operating Cash Flows:			
Net income	\$ 31,537	\$ (632)	\$ 30,905
Depreciation and amortization	15,095	632	15,727
Other adjustments to reconcile:			
Operating cash	5,029	-	5,029
Changes in working capital	(34,058)	-	(34,058)
Net cash provided by operating activities	17,603	-	17,603
Investing Cash Flows:			
Net cash used in investing activities	(8,064)	-	(8,064)
Financing Cash Flows:			
Net cash provided by financing activities	4,384	-	4,384
Effect of exchange rate changes on cash and cash equivalents	2,126	-	2,126
Net change in cash and cash equivalents	16,049	-	16,049
Cash and cash equivalents at the beginning of the period	77,593	-	77,593
Cash and cash equivalents at the end of the period	\$ 93,642	\$ -	\$ 93,642

	Twelve months ended January 31, 2009		
	Prior to Adoption	Effect of Change	As Adjusted
Operating Cash Flows:			
Net loss	\$ (88,802)	\$ (2,450)	\$ (91,252)
Depreciation and amortization	57,604	2,450	60,054
Other adjustments to reconcile:			
Operating cash	48,458	-	48,458
Changes in working capital	5,412	-	5,412
Net cash provided by operating activities	22,672	-	22,672
Investing Cash Flows:			
Net cash used in investing activities	(90,078)	-	(90,078)
Financing Cash Flows:			
Net cash provided by financing activities	44,510	-	44,510
Effect of exchange rate changes on cash and cash equivalents	(1,388)	-	(1,388)
Net change in cash and cash equivalents	(24,284)	-	(24,284)
Cash and cash equivalents at the beginning of the period	117,926	-	117,926
Cash and cash equivalents at the end of the period	\$ 93,642	\$ -	\$ 93,642

MENTOR GRAPHICS CORPORATION
UNAUDITED RECONCILIATION OF GAAP TO NON-GAAP
EARNINGS PER SHARE GUIDANCE

The following table reconciles management's estimates of the specific items excluded from GAAP in the calculation of expected non-GAAP loss per share for the periods shown below:

	<u>Q1 FY11</u>
GAAP net loss per share	\$(0.05)
Non-GAAP Adjustments:	
Amortization of purchased intangible assets (1)	0.03
Amortization of other identified intangible assets (2)	0.02
Equity plan-related compensation (3)	0.04
Special charges (4)	0.00
Other income and interest expense (5)	0.01
Income tax effects (6)	(0.10)
Non-GAAP net loss per share	<u>\$ (0.05)</u>

-
- (1) Excludes amortization of purchased intangible assets resulting from acquisition transactions. Purchased intangible assets are amortized over two to five years. The guidance for Q1 FY11 assumes no additional acquisitions.
 - (2) Excludes amortization of other identified intangible assets including trade names, employment agreements, and customer relationships, and deferred compensation resulting from acquisition transactions. Other identified intangible assets are amortized over two to five years. The guidance for Q1 FY11 assumes no additional acquisitions.
 - (3) Excludes equity plan-related compensation expense.
 - (4) Excludes special charges consisting primarily of costs incurred for facility closures, employee rebalances, (which includes severance benefits, notice pay and outplacement services), advisory fees, and acquisition costs. The guidance for Q1 FY11 assumes no additional special charges.
 - (5) Reflects amortization of original issuance debt discount and equity in losses of an equity method investment.
 - (6) Non-GAAP income tax expense adjustment reflects the application of our assumed normalized effective 17% tax rate, instead of our GAAP tax rate, to our GAAP pre-tax income and the application of the 17% tax rate to our non-GAAP adjustments.