

## Corporate Governance Guidelines

The Board oversees the management of Mentor Graphics Corporation's business operations, and helps ensure the long-term interests of its shareholders. The Board has established a governance framework to meet these obligations in compliance with applicable laws and regulations. These practices are reviewed by the Board from time to time as appropriate.

### Composition of the Board

**Selection of Chairman.** The Nominating and Corporate Governance Committee is responsible for recommendations for the selection of a Chairman by the Board. In the event that the Chairman who is selected is also the Chief Executive Officer, then the Nominating and Corporate Governance Committee will recommend candidates for Lead Independent Director (as "independent director" is defined by the rules of The NASDAQ Stock Market) for election by the Board.

**Annual Election of Directors and Term Limits.** Directors stand for re-election every year, and are not subject to term limits.

**Board Membership Criteria.** The Nominating and Corporate Governance Committee is responsible for evaluating and reviewing with the Board the qualifications of new Board members. It is also responsible for periodically reviewing the size and composition of the Board as a whole and recommending any proposed changes to the Board. In selecting or recommending candidates, the Committee shall take into consideration one or more of the following factors: personal qualities and characteristics, accomplishments and reputation in the business community; current knowledge and contacts in the Company's industry or other industries relevant to the Company's business; ability and willingness to commit adequate time to Board and committee matters; the fit of the individual's skills and personality with those of other directors and potential directors in building a Board that is effective and responsive to the needs of the Company; and, diversity of viewpoints, background, experience and other demographics.

### Director Independence

**Independent Directors.** Director independence is the foundation of good corporate governance, enabling the Board to objectively exercise oversight, evaluate performance and provide strategic direction. Our Board members provide the CEO and the rest of the management team unbiased input, while acting as a sounding board for new ideas. Except during periods of temporary vacancies, a majority of the Board must qualify as independent directors in accordance with the applicable federal securities laws and rules of The NASDAQ Stock Market.

**Lead Independent Director.** If required as set forth in "Selection of Chairman" above, one of the independent directors shall be appointed Lead Independent Director. The Lead Independent Director, along with the Chairman of the Board, establishes the agenda for

regular Board meetings and serves as chairman of regular Board meetings when the Chairman is absent. The Lead Independent Director may also establish an agenda for meetings of the independent directors and perform such other duties as the Board may establish or delegate.

**Executive Sessions.** The Board's policy is to have regularly convened executive sessions of the independent directors.

**Access to Employees.** The Board is given access to the Company's employees so that the independent directors can ask questions and gain any information necessary to fulfill their duties. Management is encouraged to invite Company personnel to any Board meeting or related Board event at which their presence and expertise would be helpful to the Board.

### **Election of Directors**

In an uncontested election of directors, each nominee will be elected a director only if the number of votes cast "for" his or her election exceeds the number of votes cast "against" such election. In a contested election of directors, the nominees who receive the greatest number of eligible votes cast will be elected directors. If any nominee of Mentor Graphics is unable or declines to serve as a director at the time of the Annual Meeting, the designated proxy holders will vote the proxies for any nominee designated by the current Board to fill the vacancy.

Any incumbent director who is a nominee for director in an uncontested election and who receives a greater number of votes "against" his or her election than votes "for" such election shall tender his or her resignation to the Board, subject to acceptance or rejection by the Board. The Nominating and Corporate Governance Committee shall evaluate the best interests of the Company and its shareholders and shall recommend to the Board the action to be taken with respect to such tendered resignation. The Board will act on the tendered resignation and publicly disclose its decision regarding the tendered resignation and the rationale behind the decision within 90 days of the certification of the election results. A director who tenders his or her resignation will not participate in the recommendation of the Nominating and Corporate Governance Committee or the decision of the Board with respect to his or her resignation, but may participate in such recommendations and decisions with respect to tendered resignations of other directors.

### **Committees of the Board**

**Number of Committees.** The Board currently has three primary committees: (i) Audit, (ii) Compensation, and (iii) Nominating and Corporate Governance. Each committee shall comply with the independence and other requirements established by the applicable federal securities laws and NASDAQ rules. Each of the Audit, Compensation and Nominating and Corporate Governance Committees has a charter that clearly establishes its roles and responsibilities.

**Audit Committee.** The Audit Committee selects the independent auditors; pre-approves audit and permitted non-audit services; evaluates accounting principles, internal controls, financial reporting, and procedures relating to internal auditing functions and controls; and reviews and approves related-party transactions. The Company's independent auditors and Director of Internal Audit report directly to the Audit Committee. The Audit Committee also establishes procedures for the receipt, retention and treatment of complaints and confidential submissions by employees or non-employees regarding the Company's accounting or auditing matters.

**Compensation Committee** The Compensation Committee administers the Company's stock option and stock purchase plans; reviews and approves executive officer salaries and salary increase budgets and other matters relating to compensation and benefits of the executive officers; recommends for the Board's approval matters related to director compensation; reviews and approves the Compensation Committee Report for the Company's Proxy Statement; and reviews and discusses with management the Compensation Discussion and Analysis included in the Company's Proxy Statement.

**Nominating and Corporate Governance Committee.** The Nominating and Corporate Governance Committee makes recommendations to the Board regarding the size, composition and governance of the Board and its committees; reviews and makes recommendations for nominees to the Board; establishes criteria for and evaluates the performance of the Board as a whole; oversees succession planning as appropriate; and develops and recommends to the Board corporate governance principles.

### **Assessment**

**Self-Assessment.** The Board maintains a process whereby the Board, its committees and its members conduct self-evaluations and self-assessments. This process occurs periodically, generally on an annual basis.