

TABLE OF CONTENTS

➤ Condensed Consolidated Balance Sheets, September 27, 2008 and December 29, 2007.....	1
➤ Trended Condensed Consolidated Balance Sheets.....	2
➤ Condensed Consolidated Statements of Operations for the Quarters and Nine Months Ended September 27, 2008 and September 29, 2007.....	3
➤ Trended Condensed Consolidated Statements of Operations.....	4
➤ Condensed Consolidated Statements of Cash Flows for the Nine Months Ended September 27, 2008 and September 29, 2007.....	5
➤ Trended Condensed Consolidated Statements of Cash Flows.....	6
➤ Impact of Non-GAAP Adjustments on Forward-Looking Diluted Net Loss Per Share, as of December 10, 2008.....	7
➤ Impact of Non-GAAP Adjustments on Forward-Looking Net Loss, as of December 10, 2008.....	7
➤ Reconciliation of GAAP Net Income (Loss) to Non-GAAP Net Income (Loss), for the Quarters and Nine Months Ended September 27, 2008 and September 29, 2007.....	8
➤ Reconciliation of GAAP Diluted Net Income (Loss) Per Share to Non-GAAP Diluted Net Income (Loss) Per Share, for the Quarters and Nine Months Ended September 27, 2008 and September 29, 2007.....	9
➤ Reconciliation of GAAP Financial Measures to Non-GAAP Financial Measures.....	10
➤ Revenue Mix by Geography.....	11
➤ Revenue Mix by Product Group.....	11
➤ Impact of Restatement Adjustments on Previously Reported Condensed Consolidated Statements of Operations for the Quarter Ended March 29, 2008 and the Quarter and Six Months Ended June 28, 2008.....	12
➤ Impact of Restatement Adjustments on Previously Reported Condensed Consolidated Statements of Operations for the Quarter Ended March 29, 2008.....	13
➤ Impact of Restatement Adjustments on Previously Reported Condensed Consolidated Statements of Operations for the Quarter Ended June 28, 2008.....	14
➤ Impact of Restatement Adjustments on Previously Reported Condensed Consolidated Statements of Operations for the Six Months Ended June 28, 2008.....	15

Cadence Design Systems, Inc.
Condensed Consolidated Balance Sheets
September 27, 2008 and December 29, 2007
(In thousands)
(Unaudited)

	<u>September 27, 2008</u>	<u>December 29, 2007</u>
Current Assets:		
Cash and cash equivalents	\$ 551,753	\$ 1,062,920
Short-term investments	6,068	15,193
Receivables, net of allowances of \$3,355 and \$2,895, respectively	278,458	326,211
Inventories	25,545	31,003
Prepaid expenses and other	84,112	94,236
Total current assets	<u>945,936</u>	<u>1,529,563</u>
Property, plant and equipment, net of accumulated depreciation of \$636,305 and \$624,680, respectively	359,196	339,463
Goodwill	1,315,217	1,310,211
Acquired intangibles, net	101,409	127,072
Installment contract receivables	170,503	238,010
Other assets	356,527	326,831
Total Assets	<u>\$ 3,248,788</u>	<u>\$ 3,871,150</u>
Current Liabilities:		
Convertible notes	\$ -	\$ 230,385
Accounts payable and accrued liabilities	259,062	289,934
Current portion of deferred revenue	245,901	265,168
Total current liabilities	<u>504,963</u>	<u>785,487</u>
Long-Term Liabilities:		
Long-term portion of deferred revenue	124,703	136,655
Convertible notes	500,178	500,000
Other long-term liabilities	413,993	368,942
Total long-term liabilities	<u>1,038,874</u>	<u>1,005,597</u>
Stockholders' Equity	1,704,951	2,080,066
Total Liabilities and Stockholders' Equity	<u>\$ 3,248,788</u>	<u>\$ 3,871,150</u>

Cadence Design Systems, Inc.
Trended Condensed Consolidated Balance Sheets
(In thousands)
(Unaudited)

	September 29, 2007	December 29, 2007	March 29, 2008 (Restated)	June 28, 2008 (Restated)	September 27, 2008
Current Assets:					
Cash and cash equivalents	\$ 935,587	\$ 1,062,920	\$ 825,545	\$ 836,513	\$ 551,753
Short-term investments	15,654	15,193	11,157	52,751	6,068
Receivables, net	278,200	326,211	326,974	308,787	278,458
Inventories	37,867	31,003	29,771	26,296	25,545
Prepaid expenses and other	111,554	94,236	97,940	101,187	84,112
Total current assets	<u>1,378,862</u>	<u>1,529,563</u>	<u>1,291,387</u>	<u>1,325,534</u>	<u>945,936</u>
Property, plant and equipment, net	332,519	339,463	345,918	359,023	359,196
Goodwill	1,311,087	1,310,211	1,315,561	1,314,236	1,315,217
Acquired intangibles, net	139,457	127,072	124,196	112,191	101,409
Installment contract receivables	221,520	238,010	214,991	192,503	170,503
Other assets	355,830	326,831	326,003	334,716	356,527
Total assets	<u>\$ 3,739,275</u>	<u>\$ 3,871,150</u>	<u>\$ 3,618,056</u>	<u>\$ 3,638,203</u>	<u>\$ 3,248,788</u>
Current Liabilities:					
Convertible notes	\$ 230,385	\$ 230,385	\$ 230,385	\$ 230,385	\$ -
Accounts payable and accrued liabilities	241,737	289,934	220,906	248,456	259,062
Current portion of deferred revenue	241,318	265,168	296,048	251,792	245,901
Total current liabilities	<u>713,440</u>	<u>785,487</u>	<u>747,339</u>	<u>730,633</u>	<u>504,963</u>
Long-Term Liabilities:					
Long-term portion of deferred revenue	124,548	136,655	135,465	131,145	124,703
Convertible notes	500,000	500,000	500,000	500,000	500,178
Other long-term liabilities	448,439	368,942	352,023	376,880	413,993
Total long-term liabilities	<u>1,072,987</u>	<u>1,005,597</u>	<u>987,488</u>	<u>1,008,025</u>	<u>1,038,874</u>
Stockholders' Equity:					
Common stock and capital in excess of par value	1,491,687	1,516,493	1,528,671	1,533,785	1,546,278
Treasury stock, at cost	(596,997)	(619,125)	(780,999)	(734,608)	(730,301)
Retained earnings	1,042,938	1,162,441	1,108,700	1,072,555	868,255
Accumulated other comprehensive income	15,220	20,257	26,857	27,813	20,719
Total stockholders' equity	<u>1,952,848</u>	<u>2,080,066</u>	<u>1,883,229</u>	<u>1,899,545</u>	<u>1,704,951</u>
Total liabilities and stockholders' equity	<u>\$ 3,739,275</u>	<u>\$ 3,871,150</u>	<u>\$ 3,618,056</u>	<u>\$ 3,638,203</u>	<u>\$ 3,248,788</u>

Cadence Design Systems, Inc.
Condensed Consolidated Statements of Operations
For the Quarters and Nine Months Ended September 27, 2008 and September 29, 2007
(In thousands, except per share amounts)
(Unaudited)

	<u>Quarters Ended</u>		<u>Nine Months Ended</u>	
	<u>September 27, 2008</u>	<u>September 29, 2007</u>	<u>September 27, 2008</u>	<u>September 29, 2007</u>
Revenue:				
Product	\$ 107,572	\$ 273,799	\$ 422,365	\$ 775,496
Services	32,873	31,225	98,763	95,963
Maintenance	92,043	95,900	290,151	285,611
Total revenue	<u>232,488</u>	<u>400,924</u>	<u>811,279</u>	<u>1,157,070</u>
Costs and Expenses:				
Cost of product	11,829	13,823	39,241	42,302
Cost of services	25,677	23,364	78,083	70,421
Cost of maintenance	13,910	15,217	42,889	45,635
Marketing and sales	91,075	97,163	274,016	297,924
Research and development	112,486	125,391	357,929	365,418
General and administrative	32,937	40,747	105,608	123,166
Amortization of acquired intangibles	5,626	4,739	17,206	13,661
Restructuring and other charges (credits)	48,120	(7,066)	47,765	(9,584)
Write-off of acquired in-process technology	-	2,678	600	2,678
Total costs and expenses	<u>341,660</u>	<u>316,056</u>	<u>963,337</u>	<u>951,621</u>
Income (loss) from operations	(109,172)	84,868	(152,058)	205,449
Interest expense	(3,180)	(2,849)	(9,055)	(9,373)
Other income (expense), net	(7,714)	14,201	(3,701)	47,938
Income (loss) before provision for income taxes	(120,066)	96,220	(164,814)	244,014
Provision for income taxes	49,000	23,488	50,269	67,265
Net income (loss)	<u>\$ (169,066)</u>	<u>\$ 72,732</u>	<u>\$ (215,083)</u>	<u>\$ 176,749</u>
Basic net income (loss) per share	<u>\$ (0.67)</u>	<u>\$ 0.27</u>	<u>\$ (0.84)</u>	<u>\$ 0.65</u>
Diluted net income (loss) per share	<u>\$ (0.67)</u>	<u>\$ 0.24</u>	<u>\$ (0.84)</u>	<u>\$ 0.60</u>
Weighted average common shares outstanding - basic	<u>252,915</u>	<u>272,977</u>	<u>256,119</u>	<u>272,354</u>
Weighted average common shares outstanding - diluted	<u>252,915</u>	<u>299,506</u>	<u>256,119</u>	<u>297,783</u>

Cadence Design Systems, Inc.
Trended Condensed Consolidated Statements of Operations
(In thousands, except per share amounts)
(Unaudited)

	Quarters Ended				
	September 29, 2007	December 29, 2007	March 29, 2008 (Restated)	June 28, 2008 (Restated)	September 27, 2008
Revenue:					
Product	\$ 273,799	\$ 328,474	\$ 139,754	\$ 175,039	\$ 107,572
Services	31,225	29,875	32,196	33,694	32,873
Maintenance	95,900	99,594	98,800	99,308	92,043
Total revenue	<u>400,924</u>	<u>457,943</u>	<u>270,750</u>	<u>308,041</u>	<u>232,488</u>
Costs and Expenses:					
Cost of product	13,823	17,767	12,001	15,411	11,829
Cost of services	23,364	22,939	25,193	27,213	25,677
Cost of maintenance	15,217	15,444	14,540	14,439	13,910
Marketing and sales	97,163	109,224	93,034	89,907	91,075
Research and development	125,391	128,614	125,356	120,087	112,486
General and administrative	40,747	45,831	37,708	34,963	32,937
Amortization of acquired intangibles	4,739	5,760	5,760	5,820	5,626
Restructuring and other charges (credits)	(7,066)	(102)	-	(355)	48,120
Write-off of acquired in-process technology	2,678	-	600	-	-
Total costs and expenses	<u>316,056</u>	<u>345,477</u>	<u>314,192</u>	<u>307,485</u>	<u>341,660</u>
Income (loss) from operations	84,868	112,466	(43,442)	556	(109,172)
Interest expense	(2,849)	(3,001)	(2,995)	(2,880)	(3,180)
Other income (expense), net	14,201	10,592	5,763	(1,750)	(7,714)
Income (loss) before provision (benefit) for income taxes	96,220	120,057	(40,674)	(4,074)	(120,066)
Provision (benefit) for income taxes	23,488	554	(11,451)	12,720	49,000
Net income (loss)	<u>\$ 72,732</u>	<u>\$ 119,503</u>	<u>\$ (29,223)</u>	<u>\$ (16,794)</u>	<u>\$ (169,066)</u>
Basic net income (loss) per share	<u>\$ 0.27</u>	<u>\$ 0.44</u>	<u>\$ (0.11)</u>	<u>\$ (0.07)</u>	<u>\$ (0.67)</u>
Diluted net income (loss) per share	<u>\$ 0.24</u>	<u>\$ 0.41</u>	<u>\$ (0.11)</u>	<u>\$ (0.07)</u>	<u>\$ (0.67)</u>
Weighted average common shares outstanding - basic	<u>272,977</u>	<u>268,659</u>	<u>262,825</u>	<u>252,629</u>	<u>252,915</u>
Weighted average common shares outstanding - diluted	<u>299,506</u>	<u>290,970</u>	<u>262,825</u>	<u>252,629</u>	<u>252,915</u>

Cadence Design Systems, Inc.
Condensed Consolidated Statements of Cash Flows
For the Nine Months Ended September 27, 2008 and September 29, 2007
(In thousands)
(Unaudited)

	Nine Months Ended	
	September 27, 2008	September 29, 2007
Cash and Cash Equivalents at Beginning of Period	\$ 1,062,920	\$ 934,342
Cash Flows from Operating Activities:		
Net income (loss)	(215,083)	176,749
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	97,719	96,798
Stock-based compensation	57,678	78,828
Equity in loss from investments, net	823	2,504
(Gain) loss on investments, net	11,440	(16,608)
(Gain) loss on sale and leaseback of land and buildings	350	(12,606)
Write-down of investment securities	10,666	2,550
Write-off of acquired in-process technology	600	2,678
Non-cash restructuring and other charges (credits)	222	(7,106)
Tax benefit of call options	7,034	7,036
Deferred income taxes	(11,020)	4,848
Proceeds from the sale of receivables, net	48,124	163,549
Provisions (recoveries) for losses (gains) on trade accounts receivable and sales returns	383	(975)
Other non-cash items	(1,258)	8,525
Changes in operating assets and liabilities, net of effect of acquired businesses:		
Receivables	21,489	9,053
Installment contract receivables	46,198	(273,301)
Inventories	5,486	(681)
Prepaid expenses and other	(3,421)	(23,229)
Other assets	(1,849)	(2,027)
Accounts payable and accrued liabilities	(41,582)	(35,516)
Deferred revenue	(32,243)	9,411
Other long-term liabilities	35,972	18,448
Net cash provided by operating activities	<u>37,728</u>	<u>208,928</u>
Cash Flows from Investing Activities:		
Proceeds from the sale of available-for-sale securities	53,783	6,468
Purchases of available-for-sale securities	(62,447)	-
Proceeds from the sale of long-term investments	3,250	6,323
Proceeds from the sale of property, plant and equipment	-	46,500
Purchases of property, plant and equipment	(81,112)	(57,405)
Purchases of software licenses	(1,199)	-
Investment in venture capital partnerships and equity investments	(4,053)	(3,214)
Cash paid in business combinations and asset acquisitions, net of cash acquired, and acquisition of intangibles	(20,621)	(74,117)
Net cash used for investing activities	<u>(112,399)</u>	<u>(75,445)</u>
Cash Flows from Financing Activities:		
Proceeds from receivable sale financing	17,970	-
Principal payments on term loan	-	(28,000)
Payment of convertible notes due 2023	(230,207)	-
Tax benefit from employee stock transactions	427	20,727
Proceeds from issuance of common stock	48,116	249,006
Stock received for payment of employee taxes on vesting of restricted stock	(3,693)	(11,735)
Purchases of treasury stock	(273,950)	(372,416)
Other	-	8,558
Net cash used for financing activities	<u>(441,337)</u>	<u>(133,860)</u>
Effect of exchange rate changes on cash and cash equivalents	<u>4,841</u>	<u>1,622</u>
Increase (decrease) in cash and cash equivalents	<u>(511,167)</u>	<u>1,245</u>
Cash and Cash Equivalents at End of Period	<u>\$ 551,753</u>	<u>\$ 935,587</u>

Cadence Design Systems, Inc.
Trended Condensed Consolidated Statements of Cash Flows
For the Five Quarters Ended September 27, 2008
(In thousands)
(Unaudited)

	<u>Q3 2007</u>	<u>Q4 2007</u>	<u>Q1 2008</u> (Restated)	<u>Q2 2008</u> (Restated)	<u>Q3 2008</u>
Cash and Cash Equivalents at Beginning of Period	\$ 1,128,529	\$ 935,587	\$ 1,062,920	\$ 825,545	\$ 836,513
Cash Flows from Operating Activities:					
Net income (loss)	72,732	119,503	(29,223)	(16,794)	(169,066)
Adjustments to reconcile net income (loss) to net cash provided by (used for) operating activities:					
Depreciation and amortization	33,490	33,851	32,982	32,571	32,166
Stock-based compensation	24,119	22,587	21,590	21,454	14,634
Equity in loss from investments, net	784	523	333	385	105
(Gain) loss on investments, net	(4,515)	(1,482)	(224)	1,953	9,711
(Gain) loss on sale and leaseback of land and buildings	(535)	(535)	(535)	(535)	1,420
Write-down of investment securities	2,000	-	5,401	2,903	2,362
Write-off of acquired in-process technology	2,678	-	600	-	-
Non-cash restructuring and other charges (credits)	(7,106)	-	80	79	63
Tax benefit of call options	2,744	4,310	-	3,150	3,884
Deferred income taxes	3,516	7,963	-	(12,824)	1,804
Proceeds from the sale of receivables, net	87,238	51,895	15,660	13,502	18,962
Provisions (recoveries) for losses (gains) on trade accounts receivable and sales returns	(869)	389	(142)	387	138
Other non-cash items	3,480	2,694	995	(2,578)	325
Changes in operating assets and liabilities, net of effect of acquired businesses:					
Receivables	(15,115)	6,709	(20,431)	31,438	10,482
Installment contract receivables	(119,665)	(120,357)	42,600	(11,549)	15,147
Inventories	291	6,878	1,281	3,462	743
Prepaid expenses and other	(15,469)	22,626	(3,546)	(4,529)	4,654
Other assets	(2,837)	1,399	(4,344)	(218)	2,713
Accounts payable and accrued liabilities	(16,023)	55,868	(80,931)	24,254	15,095
Deferred revenue	26,337	35,364	19,622	(43,746)	(8,119)
Other long-term liabilities	11,508	(56,675)	(20,849)	15,821	41,000
Net cash provided by (used for) operating activities	<u>88,783</u>	<u>193,510</u>	<u>(19,081)</u>	<u>58,586</u>	<u>(1,777)</u>
Cash Flows from Investing Activities:					
Proceeds from the sale of available-for-sale securities	3,212	-	-	3,693	50,090
Purchases of available-for-sale securities	-	-	-	(31,758)	(30,689)
Proceeds from the sale of long-term investments	82	-	3,250	-	-
Purchases of property, plant and equipment	(19,409)	(24,390)	(24,595)	(36,174)	(20,343)
Purchases of software licenses	-	(2,000)	(375)	-	(824)
Investment in venture capital partnerships and equity investments	(1,266)	-	-	(1,419)	(2,634)
Cash paid in business combinations and asset acquisitions, net of cash acquired, and acquisition of intangibles	<u>(66,723)</u>	<u>(6,608)</u>	<u>(5,560)</u>	<u>(629)</u>	<u>(14,432)</u>
Net cash used for investing activities	<u>(84,104)</u>	<u>(32,998)</u>	<u>(27,280)</u>	<u>(66,287)</u>	<u>(18,832)</u>
Cash Flows from Financing Activities:					
Proceeds from receivable sale financing	-	-	-	17,970	-
Payment of convertible notes due 2023	-	-	-	-	(230,207)
Tax benefit from employee stock transactions	2,995	363	95	193	139
Proceeds from issuance of common stock	43,787	6,456	25,485	1,152	21,479
Stock received for payment of employee taxes on vesting of restricted stock	(1,398)	(7,393)	(2,207)	(1,080)	(406)
Purchases of treasury stock	(250,961)	(27,074)	(216,236)	-	(57,714)
Other	8,558	(8,558)	-	-	-
Net cash provided by (used for) financing activities	<u>(197,019)</u>	<u>(36,206)</u>	<u>(192,863)</u>	<u>18,235</u>	<u>(266,709)</u>
Effect of exchange rate changes on cash and cash equivalents	<u>(602)</u>	<u>3,027</u>	<u>1,849</u>	<u>434</u>	<u>2,558</u>
Increase (decrease) in cash and cash equivalents	<u>(192,942)</u>	<u>127,333</u>	<u>(237,375)</u>	<u>10,968</u>	<u>(284,760)</u>
Cash and Cash Equivalents at End of Period	<u>\$ 935,587</u>	<u>\$ 1,062,920</u>	<u>\$ 825,545</u>	<u>\$ 836,513</u>	<u>\$ 551,753</u>

Cadence Design Systems, Inc.
As of December 10, 2008
Impact of Non-GAAP Adjustments on Forward Looking Diluted Net Loss Per Share
(Unaudited)

	<u>Quarter Ended</u> <u>January 3, 2009</u> <u>Forecast</u>	<u>Year Ended</u> <u>January 3, 2009</u> <u>Forecast</u>
Diluted net loss per share on a GAAP basis	\$(0.29) to \$(0.27)	\$(1.13) to \$(1.11)
Amortization of acquired intangibles	0.04	0.17
Stock-based compensation expense	0.11	0.34
Non-qualified deferred compensation expenses (credits)	-	(0.01)
Costs related to Cadence's withdrawn proposal to acquire Mentor Graphics Corporation	-	0.01
Restructuring and other charges	0.07	0.25
Write-off of acquired in-process technology	-	-
Integration and acquisition-related costs	-	-
Equity in losses from investments, write-down of investments, gains and losses on non-qualified deferred compensation plan assets	-	0.06
Loss on sale of Mentor Graphics Corporation shares	-	0.04
Foreign currency charge related to liquidation of subsidiary	0.04	0.04
Income tax related to repatriation of foreign earnings	-	0.28
Income tax effect of non-GAAP adjustments	(0.03)	(0.11)
Diluted net loss per share on a non-GAAP basis	<u>\$(0.06) to \$(0.04)</u>	<u>\$(0.06) to \$(0.04)</u>

Cadence Design Systems, Inc.
As of December 10, 2008
Impact of Non-GAAP Adjustments on Forward Looking Net Loss
(Unaudited)

(\$ in Millions)	<u>Quarter Ended</u> <u>January 3, 2009</u> <u>Forecast</u>	<u>Year Ended</u> <u>January 3, 2009</u> <u>Forecast</u>
Net loss on a GAAP basis	\$(74) to \$(68)	\$(289) to \$(283)
Amortization of acquired intangibles	10	44
Stock-based compensation expense	28	86
Non-qualified deferred compensation expenses (credits)	-	(3)
Costs related to Cadence's withdrawn proposal to acquire Mentor Graphics Corporation	-	3
Restructuring and other charges	17	65
Write-off of acquired in-process technology	-	1
Integration and acquisition-related costs	-	1
Equity in losses from investments, write-down of investments, gains and losses on non-qualified deferred compensation plan assets	-	16
Loss on sale of Mentor Graphics Corporation shares	-	9
Foreign currency charge related to liquidation of subsidiary	10	10
Income tax related to repatriation of foreign earnings	-	71
Income tax effect of non-GAAP adjustments	(7)	(29)
Net loss on a non-GAAP basis	<u>\$(16) to \$(10)</u>	<u>\$(15) to \$(9)</u>

Cadence Design Systems, Inc.
Reconciliation of GAAP Net Income (Loss) to Non-GAAP Net Income (Loss)
For the Quarters and Nine Months Ended September 27, 2008 and September 29, 2007
(Unaudited)

(In thousands)	Quarters Ended		Nine Months Ended	
	September 27, 2008	September 29, 2007	September 27, 2008	September 29, 2007
Net income (loss) on a GAAP basis	\$ (169,066)	\$ 72,732	\$ (215,083)	\$ 176,749
Amortization of acquired intangibles*	10,754	12,003	33,875	34,151
Stock-based compensation expense**	14,634	24,119	57,678	78,828
Non-qualified deferred compensation expenses (credits)***	188	2,876	(2,964)	7,027
Costs related to Cadence's withdrawn proposal to acquire Mentor Graphics Corporation	3,153	-	3,153	-
Restructuring and other charges (credits)	48,120	(7,066)	47,765	(9,584)
Write-off of acquired in-process technology	-	2,678	600	2,678
Integration and acquisition-related costs	234	301	764	985
Equity in losses from investments, write-down of investments, gains and losses on nonqualified deferred compensation plan assets - recorded in Other income (expense), net	2,798	444	15,868	(1,508)
Loss on sale of Mentor Graphics Corporation shares	9,379	-	9,379	-
Income tax related to repatriation of foreign earnings	71,047	-	71,047	-
Income tax effect of non-GAAP adjustments	(14,037)	(10,722)	(21,117)	(25,449)
Net income (loss) on a non-GAAP basis	\$ (22,796)	\$ 97,365	\$ 965	\$ 263,877

* Total amortization of acquired intangibles is reported in the Condensed Consolidated Statements of Operations as follows:

(In thousands)	Quarters Ended		Nine Months Ended	
	September 27, 2008	September 29, 2007	September 27, 2008	September 29, 2007
Cost of product	\$ 4,080	\$ 6,049	\$ 13,525	\$ 16,825
Cost of services	3	3	9	9
Cost of maintenance	1,045	1,212	3,135	3,656
Amortization of acquired intangibles	5,626	4,739	17,206	13,661
Total amortization of acquired intangibles	\$ 10,754	\$ 12,003	\$ 33,875	\$ 34,151

** Total stock-based compensation expense is reported in the Condensed Consolidated Statements of Operations as follows:

(In thousands)	Quarters Ended		Nine Months Ended	
	September 27, 2008	September 29, 2007	September 27, 2008	September 29, 2007
Cost of product	\$ 52	\$ 46	\$ 146	\$ 135
Cost of services	1,162	1,005	3,234	2,923
Cost of maintenance	743	644	2,068	1,873
Marketing and sales	3,868	5,489	13,040	17,605
Research and development	8,712	10,859	27,922	36,499
General and administrative	97	6,076	11,268	19,793
Total stock-based compensation expense	\$ 14,634	\$ 24,119	\$ 57,678	\$ 78,828

***Cadence records operating expenses (credits) related to its non-qualified deferred compensation plan assets as those assets increase or decrease in value. An offsetting gain or loss is recorded in Other income (expense), net, such that the net impact on Cadence's Net income (loss) is not significant. The operating expenses (credits) are reported in the Condensed Consolidated Statements of Operations as follows:

(In thousands)	Quarters Ended		Nine Months Ended	
	September 27, 2008	September 29, 2007	September 27, 2008	September 29, 2007
Cost of product	\$ (1)	\$ 5	\$ (8)	\$ (4)
Cost of services	(20)	109	(165)	261
Cost of maintenance	(13)	70	(106)	167
Marketing and sales	(95)	788	(1,437)	2,020
Research and development	426	1,333	(71)	2,739
General and administrative	(109)	571	(1,177)	1,844
Total non-qualified deferred compensation expenses (credits)	\$ 188	\$ 2,876	\$ (2,964)	\$ 7,027

Cadence Design Systems, Inc.
Reconciliation of GAAP Diluted Net Income (Loss) Per Share to Non-GAAP Diluted Net Income (Loss) Per Share
For the Quarters and Nine Months Ended September 27, 2008 and September 29, 2007
(Unaudited)

(In thousands, except per share data)	Quarters Ended		Nine Months Ended	
	September 27, 2008	September 29, 2007	September 27, 2008	September 29, 2007
Diluted net income (loss) per share on a GAAP basis**	\$ (0.67)	\$ 0.24	\$ (0.84)	\$ 0.60
Amortization of acquired intangibles	0.04	0.04	0.13	0.12
Stock-based compensation expense	0.06	0.08	0.23	0.26
Non-qualified deferred compensation expenses (credits)	-	0.01	(0.01)	0.02
Costs related to Cadence's withdrawn proposal to acquire Mentor Graphics Corporation	0.01	-	0.01	-
Restructuring and other charges (credits)	0.19	(0.02)	0.19	(0.03)
Write-off of acquired in-process technology	-	0.01	-	0.01
Integration and acquisition-related costs	-	-	-	-
Equity in losses from investments, write-down of investments, gains and losses on nonqualified deferred compensation plan assets - recorded in Other income (expense), net	0.01	-	0.06	(0.01)
Loss on sale of Mentor Graphics Corporation shares	0.04	-	0.04	-
Income tax related to repatriation of foreign earnings	0.28	-	0.28	-
Income tax effect of non-GAAP adjustments	(0.05)	(0.03)	(0.08)	(0.08)
Diluted net income (loss) per share on a non-GAAP basis**	\$ (0.09)	\$ 0.33	\$ 0.01	\$ 0.89
Shares used in calculation of diluted net income (loss) per share - GAAP *	252,915	299,506	256,119	297,783
Shares used in calculation of diluted net income (loss) per share - non-GAAP *	252,915	299,506	270,516	297,783

* Shares used in the calculation of GAAP net income (loss) per share are expected to be the same as shares used in the calculation of non-GAAP net income (loss) per share, except when the company reports a GAAP net loss and non-GAAP net income, or GAAP net income and a non-GAAP net loss.

** In accordance with Emerging Issues Task Force 04-08, Cadence excludes expenses associated with its convertible notes due 2023 from diluted net income per share on a GAAP basis and on a non-GAAP basis. The following tables show the adjustments to GAAP and non-GAAP net income (loss) and the calculation of diluted net income (loss) per share on a GAAP basis and on a non-GAAP basis.

Diluted net income (loss) per share on a GAAP basis (In thousands, except per share data)	Quarters Ended		Nine Months Ended	
	September 27, 2008	September 29, 2007	September 27, 2008	September 29, 2007
Net income (loss)	\$ (169,066)	\$ 72,732	\$ (215,083)	\$ 176,749
Amortization of offering costs related to convertible notes due 2023, net of tax	-	219	-	657
Adjusted net income (loss)	\$ (169,066)	\$ 72,951	\$ (215,083)	\$ 177,406
Diluted net income (loss) per share	\$ (0.67)	\$ 0.24	\$ (0.84)	\$ 0.60
Shares used in the calculation of net income (loss) per share - GAAP	252,915	299,506	256,119	297,783
Diluted net income (loss) per share on a non-GAAP basis (In thousands, except per share data)	Quarters Ended		Nine Months Ended	
	September 27, 2008	September 29, 2007	September 27, 2008	September 29, 2007
Net income (loss) on a non-GAAP basis	\$ (22,796)	\$ 97,365	\$ 965	\$ 263,877
Amortization of offering costs related to convertible notes due 2023, net of tax	-	270	630	810
Adjusted net income (loss) on a non-GAAP basis	\$ (22,796)	\$ 97,635	\$ 1,595	\$ 264,687
Diluted net income (loss) per share on a non-GAAP basis	\$ (0.09)	\$ 0.33	\$ 0.01	\$ 0.89
Shares used in the calculation of net income (loss) per share - non-GAAP	252,915	299,506	270,516	297,783

Cadence Design Systems, Inc.
Reconciliation of GAAP Financial Measures to Non-GAAP Financial Measures
(Unaudited)

(In thousands)	Quarter Ended September 27, 2008	Quarter Ended September 29, 2007
	Actual	Actual
	\$	\$
GAAP total costs and expenses	341,660	316,056
Reconciling items to non-GAAP total costs and expenses		
Amortization of acquired intangibles	(10,754)	(12,003)
Stock-based compensation expense	(14,634)	(24,119)
Non-qualified deferred compensation expenses	(188)	(2,876)
Costs related to Cadence's withdrawn proposal to acquire Mentor Graphics Corporation	(3,153)	-
Restructuring and other (charges) credits	(48,120)	7,066
Write-off of acquired in-process technology	-	(2,678)
Non-GAAP total costs and expenses	<u>\$ 264,811</u>	<u>\$ 281,446</u>

(In thousands)	Quarter Ended September 27, 2008	Year Ended January 3, 2009
	Actual	Forecast
GAAP operating margin as a percent of total revenue	-47%	-22%
Reconciling items to non-GAAP operating margin as a percent of total revenue		
Amortization of acquired intangibles	5%	5%
Stock-based compensation expense	6%	8%
Non-qualified deferred compensation expenses	-	-
Costs related to Cadence's withdrawn proposal to acquire Mentor Graphics Corporation	1%	-
Restructuring and other charges (credits)	21%	6%
Write-off of acquired in-process technology	-	-
Non-GAAP operating margin as a percent of total revenue	<u>-14%</u>	<u>-3%</u>

(In millions)	Year Ended January 3, 2009
	Forecast
GAAP total other income (expense), net	\$(23) to \$(22)
Reconciling items to non-GAAP total other income (expense), net	
Integration and acquisition-related costs	1
Equity in losses from investments, write-down of investments, gains and losses on non-qualified deferred compensation plan assets	16
Loss on sale of Mentor Graphics Corporation shares	9
Foreign currency charge related to liquidation of subsidiary	10
Non-GAAP total other income (expense), net	<u>\$13 to \$14</u>

Cadence Design Systems, Inc.
Reconciliation of selected GAAP Operating Expenses to Non-GAAP Operating Expenses
(Unaudited)

	For the quarter ended September 27, 2008					
	Operating expenses on a GAAP basis	Stock-based compensation	Amortization of acquired intangibles	Non-qualified deferred compensation expenses	Costs related to Cadence's withdrawn proposal to acquire Mentor Graphics	Operating expenses on a non-GAAP basis
Cost of product	11,829	(52)	(4,080)	1	-	7,698
Cost of services	25,677	(1,162)	(3)	20	-	24,532
Cost of maintenance	13,910	(743)	(1,045)	13	-	12,135
Marketing and sales	91,075	(3,868)	-	95	-	87,302
Research and development	112,486	(8,712)	-	(426)	-	103,348
General and administrative	32,937	(97)	-	109	(3,153)	29,796
Amortization of acquired intangibles	5,626	-	(5,626)	-	-	-
		<u>(14,634)</u>	<u>(10,754)</u>	<u>(188)</u>	<u>(3,153)</u>	

	For the nine months ended September 27, 2008					
	Operating expenses on a GAAP basis	Stock-based compensation	Amortization of acquired intangibles	Non-qualified deferred compensation expenses	Costs related to Cadence's withdrawn proposal to acquire Mentor Graphics	Operating expenses on a non-GAAP basis
Cost of product	39,241	(146)	(13,525)	8	-	25,578
Cost of services	78,083	(3,234)	(9)	165	-	75,005
Cost of maintenance	42,889	(2,068)	(3,135)	106	-	37,792
Marketing and sales	274,016	(13,040)	-	1,437	-	262,413
Research and development	357,929	(27,922)	-	71	-	330,078
General and administrative	105,608	(11,268)	-	1,177	(3,153)	92,364
Amortization of acquired intangibles	17,206	-	(17,206)	-	-	-
		<u>(57,678)</u>	<u>(33,875)</u>	<u>2,964</u>	<u>(3,153)</u>	

Cadence Design Systems, Inc.
(Unaudited)

Revenue Mix by Geography (% of Total Revenue)

GEOGRAPHY	2006					2007					2008		
	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3
Americas	51%	48%	54%	60%	54%	48%	52%	41%	50%	49%	(Restated) 43%	(Restated) 48%	43%
Europe	19%	18%	22%	19%	19%	15%	17%	25%	17%	18%	24%	21%	23%
Japan	21%	24%	13%	10%	17%	27%	14%	22%	22%	21%	21%	19%	20%
Asia	9%	10%	11%	11%	10%	10%	17%	12%	11%	12%	12%	12%	14%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

Revenue Mix by Product Group (% of Total Revenue)

PRODUCT GROUP	2006					2007					2008		
	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3
Functional Verification	26%	22%	24%	23%	24%	24%	24%	20%	26%	24%	(Restated) 22%	(Restated) 25%	22%
Digital IC Design	20%	26%	19%	26%	24%	26%	29%	27%	27%	27%	24%	24%	20%
Custom IC Design	27%	27%	30%	26%	27%	24%	24%	32%	25%	27%	26%	23%	26%
Design for Manufacturing	8%	8%	8%	6%	7%	7%	7%	6%	6%	6%	5%	7%	7%
System Interconnect	9%	8%	10%	11%	9%	10%	8%	7%	9%	8%	11%	10%	11%
Services & Other	10%	9%	9%	8%	9%	9%	8%	8%	7%	8%	12%	11%	14%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

Note: Product Group total revenue includes Product + Maintenance

Cadence Design Systems, Inc.
Impact of Restatement Adjustments on Previously Reported Condensed Consolidated Statements of Operations
For the Quarter Ended March 29, 2008 and the Quarter and Six Months Ended June 28, 2008
(In thousands, except per share amounts)
(Unaudited)

	<u>Quarter Ended March 29, 2008</u>	<u>Quarter Ended June 28, 2008</u>	<u>Six Months Ended June 28, 2008</u>
Total revenue as previously reported	\$ 287,189	\$ 329,478	\$ 616,667
Restatement adjustments (A), (B), (C)	(16,439)	(21,437)	(37,876)
Total revenue as restated	<u>\$ 270,750</u>	<u>\$ 308,041</u>	<u>\$ 578,791</u>
Total costs and expenses as previously reported	\$ 314,192	\$ 310,092	\$ 624,284
Restatement adjustments (B), (D)	-	(2,607)	(2,607)
Total costs and expenses as restated	<u>\$ 314,192</u>	<u>\$ 307,485</u>	<u>\$ 621,677</u>
Provision (benefit) for income taxes as previously reported	\$ (5,488)	\$ 9,760	\$ 4,272
Restatement adjustments (E)	(5,963)	2,960	(3,003)
Provision (benefit) for income taxes as restated	<u>\$ (11,451)</u>	<u>\$ 12,720</u>	<u>\$ 1,269</u>
Net income (loss) as previously reported	\$ (18,747)	\$ 4,996	\$ (13,751)
Restatement adjustments	(10,476)	(21,790)	(32,266)
Net loss as restated	<u>\$ (29,223)</u>	<u>\$ (16,794)</u>	<u>\$ (46,017)</u>
Basic net income (loss) per share as previously reported	\$ (0.07)	\$ 0.02	\$ (0.05)
Restatement adjustments	(0.04)	(0.09)	(0.13)
Basic net loss per share as restated	<u>\$ (0.11)</u>	<u>\$ (0.07)</u>	<u>\$ (0.18)</u>
Diluted net income (loss) per share as previously reported	\$ (0.07)	\$ 0.02	\$ (0.05)
Restatement adjustments	(0.04)	(0.09)	(0.13)
Diluted net loss per share as restated	<u>\$ (0.11)</u>	<u>\$ (0.07)</u>	<u>\$ (0.18)</u>

Notes:

- (A) This restatement adjustment corrects revenue recognition for one arrangement under which \$24.8 million of Product revenue was recognized during the first quarter of 2008 and \$1.0 million of Maintenance revenue was recognized during the second quarter of 2008, but should be recognized during the term of the arrangement, beginning in the fourth quarter of 2008.
- (B) This restatement adjustment corrects revenue recognition for one arrangement identified during Cadence's remediation efforts under which \$12.0 million of Product revenue was recognized during the second quarter of 2008, but should be recognized during the term of the arrangement, beginning in the third quarter of 2008. As a result of reversing this \$12.0 million of Product revenue that was previously recognized, Cadence also decreased Cost of product by \$0.1 million for the second quarter of 2008.
- (C) Because Cadence is restating its financial results for the first and second quarters of 2008 for the revenue arrangements described in Notes (A) and (B), Cadence has also recorded two other Product revenue adjustments, in the aggregate amount of \$8.4 million, that were previously disclosed in Cadence's Quarterly Report on Form 10-Q for the quarter ended June 28, 2008, initially filed with the SEC on July 29, 2008. Cadence determined that Product revenue for these two contracts totaling \$8.4 million recognized during the second quarter of 2008 should have been recognized during the first quarter of 2008.
- (D) This restatement adjustment reduces Cost of product for a hardware arrangement during the second quarter of 2008 by \$2.5 million.
- (E) This restatement adjustment represents the tax effect of the restatement adjustments noted above.

Cadence Design Systems, Inc.
Impact of Restatement Adjustments on Previously Reported Condensed Consolidated Statements of Operations
For the Quarter Ended March 29, 2008
(In thousands, except per share amounts)
(Unaudited)

	Quarter Ended March 29, 2008		
	<u>As Previously Reported</u>	<u>Restatement Adjustments</u>	<u>As Restated</u>
Revenue			
Product	\$ 156,193	\$ (16,439) (A), (B)	\$ 139,754
Services	32,196	-	32,196
Maintenance	98,800	-	98,800
Total revenue	<u>287,189</u>	<u>(16,439)</u>	<u>270,750</u>
Costs and Expenses			
Cost of product	12,001	-	12,001
Cost of services	25,193	-	25,193
Cost of maintenance	14,540	-	14,540
Marketing and sales	93,034	-	93,034
Research and development	125,356	-	125,356
General and administrative	37,708	-	37,708
Amortization of acquired intangibles	5,760	-	5,760
Write-off of acquired in-process technology	600	-	600
Total costs and expenses	<u>314,192</u>	<u>-</u>	<u>314,192</u>
Loss from operations	(27,003)	(16,439)	(43,442)
Interest expense	(2,995)	-	(2,995)
Other income, net	5,763	-	5,763
Loss before benefit for income taxes	(24,235)	(16,439)	(40,674)
Benefit for income taxes	(5,488)	(5,963) (C)	(11,451)
Net loss	<u>\$ (18,747)</u>	<u>\$ (10,476)</u>	<u>\$ (29,223)</u>
Basic net loss per share	<u>\$ (0.07)</u>		<u>\$ (0.11)</u>
Diluted net loss per share	<u>\$ (0.07)</u>		<u>\$ (0.11)</u>
Weighted average common shares outstanding - basic	<u>262,825</u>		<u>262,825</u>
Weighted average common shares outstanding - diluted	<u>262,825</u>		<u>262,825</u>

Notes:

(A) This restatement adjustment corrects revenue recognition for one arrangement under which \$24.8 million of Product revenue was recognized during the first quarter of 2008, but should be recognized during the term of the arrangement, beginning in the fourth quarter of 2008.

(B) Because Cadence is restating its financial results for the first quarter of 2008 for the revenue arrangement described in Note (A), Cadence has also recorded two other Product revenue adjustments, in the aggregate amount of \$8.4 million, that were previously disclosed in Cadence's Quarterly Report on Form 10-Q for the quarter ended June 28, 2008, initially filed with the SEC on July 29, 2008. Cadence determined that Product revenue for these two contracts totaling \$8.4 million recognized during the second quarter of 2008 should have been recognized during the first quarter of 2008.

(C) This restatement adjustment represents the tax effect of the restatement adjustments noted above.

Cadence Design Systems, Inc.
Impact of Restatement Adjustments on Previously Reported Condensed Consolidated Statements of Operations
For the Quarter Ended June 28, 2008
(In thousands, except per share amounts)
(Unaudited)

	Quarter Ended June 28, 2008		
	As Previously Reported	Restatement Adjustments	As Restated
Revenue			
Product	\$ 195,444	\$ (20,405) (A), (B), (C)	\$ 175,039
Services	33,694	-	33,694
Maintenance	100,340	(1,032) (A)	99,308
Total revenue	<u>329,478</u>	<u>(21,437)</u>	<u>308,041</u>
Costs and Expenses			
Cost of product	18,018	(2,607) (B), (D)	15,411
Cost of services	27,213	-	27,213
Cost of maintenance	14,439	-	14,439
Marketing and sales	89,907	-	89,907
Research and development	120,087	-	120,087
General and administrative	34,963	-	34,963
Amortization of acquired intangibles	5,820	-	5,820
Restructuring and other charges (credits)	(355)	-	(355)
Total costs and expenses	<u>310,092</u>	<u>(2,607)</u>	<u>307,485</u>
Income from operations	19,386	(18,830)	556
Interest expense	(2,880)	-	(2,880)
Other expense, net	(1,750)	-	(1,750)
Income (loss) before provision for income taxes	14,756	(18,830)	(4,074)
Provision for income taxes	9,760	2,960 (E)	12,720
Net income (loss)	<u>\$ 4,996</u>	<u>\$ (21,790)</u>	<u>\$ (16,794)</u>
Basic net income (loss) per share	<u>\$ 0.02</u>		<u>\$ (0.07)</u>
Diluted net income (loss) per share	<u>\$ 0.02</u>		<u>\$ (0.07)</u>
Weighted average common shares outstanding - basic	<u>252,629</u>		<u>252,629</u>
Weighted average common shares outstanding - diluted	<u>269,060</u>		<u>252,629</u>

Notes:

- (A) This restatement adjustment corrects revenue recognition for one arrangement under which \$24.8 million of Product revenue was recognized during the first quarter of 2008 and \$1.0 million of Maintenance revenue was recognized during the second quarter of 2008, but should be recognized during the term of the arrangement, beginning in the fourth quarter of 2008.
- (B) This restatement adjustment corrects revenue recognition for one arrangement identified during Cadence's remediation efforts under which \$12.0 million of Product revenue was recognized during the second quarter of 2008, but should be recognized during the term of the arrangement, beginning in the third quarter of 2008. As a result of reversing this \$12.0 million of Product revenue that was previously recognized, Cadence also decreased Cost of product by \$0.1 million for the second quarter of 2008.
- (C) Because Cadence is restating its financial results for the second quarter of 2008 for the revenue arrangements described in Notes (A) and (B), Cadence has also recorded two other Product revenue adjustments, in the aggregate amount of \$8.4 million, that were previously disclosed in Cadence's Quarterly Report on Form 10-Q for the quarter ended June 28, 2008, initially filed with the SEC on July 29, 2008. Cadence determined that Product revenue for these two contracts totaling \$8.4 million recognized during the second quarter of 2008 should have been recognized during first quarter of 2008.
- (D) This restatement adjustment reduces Cost of product for a hardware arrangement during the second quarter of 2008 by \$2.5 million.
- (E) This restatement adjustment represents the tax effect of the restatement adjustments noted above.

Cadence Design Systems, Inc.
Impact of Restatement Adjustments on Previously Reported Condensed Consolidated Statements of Operations
For the Six Months Ended June 28, 2008
(In thousands, except per share amounts)
(Unaudited)

	Six Months Ended June 28, 2008		
	As Previously Reported	Restatement Adjustments	As Restated
Revenue			
Product	\$ 351,637	\$ (36,844) (A), (B)	\$ 314,793
Services	65,890	-	65,890
Maintenance	199,140	(1,032) (A)	198,108
Total revenue	<u>616,667</u>	<u>(37,876)</u>	<u>578,791</u>
Costs and Expenses			
Cost of product	30,019	(2,607) (B), (C)	27,412
Cost of services	52,406	-	52,406
Cost of maintenance	28,979	-	28,979
Marketing and sales	182,941	-	182,941
Research and development	245,443	-	245,443
General and administrative	72,671	-	72,671
Amortization of acquired intangibles	11,580	-	11,580
Restructuring and other charges (credits)	(355)	-	(355)
Write-off of acquired in-process technology	600	-	600
Total costs and expenses	<u>624,284</u>	<u>(2,607)</u>	<u>621,677</u>
Loss from operations	(7,617)	(35,269)	(42,886)
Interest expense	(5,875)	-	(5,875)
Other income, net	4,013	-	4,013
Loss before provision for income taxes	(9,479)	(35,269)	(44,748)
Provision for income taxes	4,272	(3,003) (D)	1,269
Net loss	<u>\$ (13,751)</u>	<u>\$ (32,266)</u>	<u>\$ (46,017)</u>
Basic net loss per share	<u>\$ (0.05)</u>		<u>\$ (0.18)</u>
Diluted net loss per share	<u>\$ (0.05)</u>		<u>\$ (0.18)</u>
Weighted average common shares outstanding - basic	<u>257,724</u>		<u>257,724</u>
Weighted average common shares outstanding - diluted	<u>257,724</u>		<u>257,724</u>

Notes:

- (A) This restatement adjustment corrects revenue recognition for one arrangement under which \$24.8 million of Product revenue and \$1.0 million of Maintenance revenue was recognized during the six months ended June 28, 2008, but should be recognized during the term of the arrangement, beginning in the fourth quarter of 2008.
- (B) This restatement adjustment corrects revenue recognition for one arrangement identified during Cadence's remediation efforts under which \$12.0 million of Product revenue was recognized during the six months ended June 28, 2008, but should be recognized during the term of the arrangement, beginning in the third quarter of 2008. As a result of reversing this \$12.0 million of Product revenue that was previously recognized, Cadence also decreased Cost of product by \$0.1 million for the six months ended June 28, 2008.
- (C) This restatement adjustment reduces Cost of product for a hardware arrangement during the six months ended June 28, 2008 by \$2.5 million.
- (D) This restatement adjustment represents the tax effect of the restatement adjustments noted above.