



**CORPORATE GOVERNANCE GUIDELINES OF THE BOARD OF DIRECTORS  
OF  
CADENCE DESIGN SYSTEMS, INC.**

The Board of Directors (the “**Board**”) of Cadence Design Systems, Inc. (the “**Company**” or “**Cadence**”) has adopted the following Corporate Governance Guidelines (the “**Guidelines**”) to assist the Board in exercising its responsibilities. The Guidelines reflect the Board’s commitment to monitor the effectiveness of policy and decision making at the Board and management level, with a view to enhancing stockholder value over the long term, have the necessary authority and practices in place to review and evaluate Cadence’s business operations as needed and make decisions that are independent of Cadence’s management. The Guidelines are subject to modification from time to time as the Board deems necessary or advisable.

## **SELECTION AND COMPOSITION**

### **1. Board Membership Criteria**

The Corporate Governance and Nominating Committee is responsible for reviewing with the Board, on an annual basis, the appropriate experience, skills and characteristics required of Board members in the context of the current composition of the Board and any committee thereof. This assessment should include the current composition of the Board, the need for particular expertise, a prospective nominee’s integrity, experience, judgment, diversity of background, independence, financial literacy, ability to commit sufficient time and attention to Board activities, and skills such as an understanding of electronic design, semiconductor and electronics systems technologies, international background and other relevant characteristics -- all in the context of an assessment of the perceived needs of the Board at that point in time and applicable law. The Corporate Governance and Nominating Committee shall have sole authority to retain and terminate any search firm to be used to identify director candidates, including sole authority to approve the search firm’s fees and other retention terms.

### **2. Selection and Orientation of New Directors**

The Corporate Governance and Nominating Committee shall recommend to the Board individuals for membership on the Company’s Board. The Board is responsible for nominating its own members and, as required, for recommending them for election by the stockholders.

Cadence has an orientation process for new directors that includes background material, meetings with senior management and visits to Cadence facilities.

### **3. Voting for Directors**

Cadence’s Bylaws provide for majority voting in the election of directors. In uncontested elections, directors are elected by a majority of the votes cast, which means that the number of shares voted “for” a director must exceed the number of shares voted “against” that director. In contested elections, directors must be elected by the affirmative vote of a plurality of the votes cast in such election.

In order for any incumbent director to become a nominee of the Board for further service on the Board, such person must submit an irrevocable resignation that becomes immediately effective if (i) the votes cast for such nominee do not exceed the votes cast against such nominee in an election that is not a contested election, and (ii) thereafter the Board accepts that resignation

in accordance with the policies and procedures adopted by the Board for such purpose. In the event the votes cast for an incumbent director do not exceed the votes cast against such incumbent in an election that is not a contested election, the Corporate Governance and Nominating Committee will make a recommendation to the Board as to whether to accept or reject the resignation, or whether other action should be taken. In determining whether or not to recommend that the Board accept or reject any resignation offer, the Corporate Governance and Nominating Committee shall be entitled to consider all factors believed relevant by such Committee's members. If a majority of the members of the Corporate Governance and Nominating Committee were required to tender their resignations as provided above, the independent directors on the Board who were not required to tender their resignations will act as a committee to consider the resignation offers and recommend to the Board whether or not to accept them.

The Board shall act on the resignation, taking into account the Corporate Governance and Nominating Committee's recommendation, and publicly disclose (as required by applicable law) its decision regarding the resignation and, if such resignation is rejected, the rationale behind the decision within 90 days following certification of the election results. In deciding whether or not to accept the tendered resignation, the Board will consider the factors considered by the Corporate Governance and Nominating Committee and any additional information and factors that the Board believes to be relevant. Unless applicable to all directors, the director(s) whose resignation is under consideration is expected to recuse himself or herself from such Board vote. Thereafter, the Board will promptly publicly disclose its decision regarding the director's resignation offer (including the reason(s) for rejecting the resignation offer, if applicable). If the Board accepts a director's resignation pursuant to this process, or if a nominee for director is not elected and the nominee is not an incumbent director, the Corporate Governance and Nominating Committee shall recommend to the Board and the Board shall thereafter determine whether to fill such vacancy or reduce the size of the Board, pursuant to the procedures provided for in the Bylaws.

#### **4. Board Leadership**

The Board believes it is important to retain its flexibility to allocate the responsibilities of the offices of the Board Chair and the Chief Executive Officer in any way that is in the best interests of Cadence at a given point in time. Therefore, the Board does not have a policy, one way or the other, on whether or not the role of the Board Chair and the Chief Executive Officer should be separate or combined and, if it is to be separate, whether the Board Chair should be selected from the non-employee directors or be an employee. In the event that the Chief Executive Officer or another employee is the Board Chair, the independent directors shall designate a non-employee to be a Lead Independent Director in accordance with Section 17 hereof.

### **BOARD COMPOSITION AND PERFORMANCE**

#### **5. Size of the Board; Board Composition and Independence**

The Corporate Governance and Nominating Committee shall periodically review the size of the Board and recommend any proposed changes to the Board. The Board may be willing to increase the size of the Board in order to accommodate the availability of an outstanding

candidate(s) or reduce its size if the Board determines that a smaller Board would be appropriate.

At least a majority of directors on the Board shall be “independent directors” within the meaning of the listing standards of the Nasdaq Stock Market, as determined by the Board.

## **6. Positions and Circumstances Outside of Cadence**

Directors should inform, and obtain a determination from, the Chair of the Corporate Governance and Nominating Committee (or in the case of the Chair of the Corporate Governance and Nominating Committee, the Board Chair) and the General Counsel before joining the board of directors of another company. Directors should also inform the Chair of the Corporate Governance and Nominating Committee (or in the case of the Chair of the Corporate Governance and Nominating Committee, the Board Chair) and the General Counsel when accepting any new employment, consulting engagement or advisory role with another company, upon becoming an affiliate (as defined by the Securities and Exchange Commission) of another company, when they retire or experience a change in their professional responsibilities, or when their personal circumstances have changed to the extent it affects their ability to contribute. In such cases, the Corporate Governance and Nominating Committee should evaluate the continued appropriateness of the Board membership under the new circumstances. In any case, directors are expected to ensure that their other existing and planned future commitments do not interfere with their service on the Board and do not pose an actual or potential conflict of interest.

## **7. Term Limits**

The Board does not believe it should establish term limits. While term limits could help ensure that there are fresh ideas and viewpoints available to the Board, they hold the disadvantage of losing the contribution of directors who have been able to develop, over a period of time, increasing insight into Cadence and its operations and, therefore, provide an increasing contribution to the Board as a whole, and therefore to Cadence.

As an alternative to term limits, the Corporate Governance and Nominating Committee will formally evaluate, at least annually, performance and effectiveness of each director and determine whether the Board desires continued service. This will also allow each director the opportunity to conveniently confirm his or her desire to continue as a member of the Board.

## **8. Board Compensation**

Designated Cadence employees shall report at least once a year to the Compensation Committee on the status of Board compensation in relation to similar companies. As part of a director’s total compensation, and to create a direct link with corporate performance, the Board believes that a meaningful portion of a director’s compensation should be provided and held in the form of equity awards, such as incentive stock awards, restricted stock units or options to purchase Cadence common stock.

Changes in Board compensation, if any, should be made upon the recommendation of the Compensation Committee, but only after full discussion and approval by the Board. The Compensation Committee may retain a consulting firm to assist in the evaluation of director

compensation. The Compensation Committee shall have sole authority to retain or terminate such consulting firm, including sole authority to approve the firm's fees and other retention terms.

Directors' fees (including any equity based compensation) are the only compensation an Audit Committee member or a Compensation Committee member may receive from Cadence.

## **9. Board Responsibilities**

The Board is elected by the stockholders to oversee the Company's management and ensure that the long-term interests of the stockholders are served. The Board acts as the ultimate decision-making body of Cadence, except with respect to those matters that are reserved for the Company's stockholders. The Board advises and oversees management, who are responsible for the day-to-day operations and management of Cadence. In fulfilling this role, each director must act in what he or she reasonably believes to be in the best interests of Cadence and must exercise his or her business judgment.

Cadence expects directors to be active and engaged in discharging their duties and to keep themselves informed about the business and operations of Cadence. Directors are expected to use their best efforts to attend, in person or by telephone, all meetings of the Board and any committee on which they serve. Directors are expected to have reviewed all materials provided for a meeting in advance of that meeting. Directors are encouraged to attend annual meetings of Cadence stockholders.

The Board shall review Cadence's financial performance on a regular basis at Board meetings and through periodic updates.

## **10. Access to Employees, Outside Legal, Accounting or Other Advisors**

The Board has access to Cadence employees to ensure that directors can ask all questions and glean all information necessary to fulfill their duties. The Board and its committees have the authority to hire outside legal, financial, accounting or other advisors and shall, as appropriate, obtain advice and assistance from such advisors. Cadence shall pay the fees and expenses of any such outside advisors.

## **11. Continuing Education of Directors**

It is recommended that each director attend continuing education programs designed for directors of publicly-traded companies at least once every three years.

## **12. Board Evaluation**

The Board should conduct a self-evaluation at least annually to determine whether it and its members and committees are functioning effectively. The Corporate Governance and Nominating Committee shall oversee these evaluations.

## **BOARD RELATIONSHIP TO SENIOR MANAGEMENT**

### **13. Board Access to Senior Management**

Board members shall have complete access to Cadence's management. It is assumed that Board members will use judgment to ensure that this contact does not interfere with the business operations of Cadence.

Furthermore, the Board encourages Cadence's management, from time to time, to bring managers into Board meetings who: (a) can provide additional insight into the items being discussed because of personal involvement in these areas, and/or (b) are managers with future potential that senior management believes should be given exposure to the Board.

The Chief Executive Officer shall report to the Board annually on Cadence's program for management development. This report should be given to the Board at the same time as the Chief Executive Officer succession planning report noted below.

The Chief Legal Officer of Cadence shall report to the Board on corporate governance matters and any other matters deemed appropriate by the Board and the Chief Legal Officer on a quarterly basis, and as otherwise necessary.

## **MEETING PROCEDURES**

### **14. Selection of Agenda Items for Board Meetings**

The Board Chair, in consultation with the Chief Executive Officer, will establish the frequency and length of Board meetings and shall set the agenda for each Board meeting. Each Board member is free to suggest the inclusion of item(s) on the agenda.

### **15. Board Materials Distributed in Advance**

Information and data that are important to the Board's understanding of Cadence's business will be distributed in writing sufficiently in advance of Board meetings to enable the directors to understand and develop questions with respect to such materials, unless such advance distribution is impracticable.

### **16. Executive Sessions of Independent Directors**

The directors who are independent shall meet separately at least twice annually. If the Board Chair is an independent director, the Board Chair shall preside at each meeting of the independent directors. If the Board Chair is not an independent director, then the independent directors shall determine the means of selecting one independent director (the "***Lead Independent Director***") to preside at each meeting of the independent directors. Cadence shall disclose the means of selecting the Lead Independent Director in Cadence's proxy statement and a means by which interested parties may communicate directly with the Lead Independent Director. Cadence's management and staff shall provide such support and information as the Board requests in connection with such meetings.

## **COMMITTEE MATTERS**

### **17. Board Committees**

The Board shall have at all times an Audit Committee, a Compensation Committee and a Corporate Governance and Nominating Committee. The Board may, from time to time, establish, maintain or terminate additional committees as it deems appropriate and in the best interests of Cadence.

Each of the Audit Committee, Compensation Committee and Corporate Governance and Nominating Committee as well as any other committee of the Board shall operate pursuant to its own written charter, which charter shall be approved by the Board and each of the respective committees. These charters shall, among other things, set forth the purpose and responsibilities of the particular committee, the procedures for committee member appointment and removal and committee structure and operations, as well as reporting to the Board.

### **18. Assignment of Committee Members**

The Board is responsible, taking into consideration the desires of individual Board members and requirements of applicable laws and regulations, for the assignment of directors to and removal of directors from various Board committees and for the designation of the Chair of each committee, in each case in accordance with any guidelines set forth in the charter of such committee.

Only independent directors meeting the independence requirements of the Nasdaq Stock Market may serve on the Audit Committee, Compensation Committee or Corporate Governance and Nominating Committee. In addition, only independent directors meeting the independence requirements of Rule 10A-3 of the Securities Exchange Act of 1934, as amended (together with the rules and regulations promulgated thereunder, the “*Exchange Act*”), and any related rules promulgated by the Securities and Exchange Commission may serve on the Audit Committee and only independent directors meeting the independence requirements for compensation committee service imposed by the Exchange Act, the requirements for “non-employee directors” under Rule 16b-3 of the Exchange Act and any other requirements deemed by the Board to be applicable, including any requirements imposed by the Internal Revenue Service, may serve on the Compensation Committee. Committee members shall be appointed by the Board upon the recommendation of the Corporate Governance and Nominating Committee.

While the rotation of committee members at certain set intervals should be considered periodically, rotation is not required because the Board believes there are significant benefits attributable to continuity and experience gained in service on a particular committee over time.

### **19. Committee Agenda and Meetings**

The Chair of each committee, in consultation with the appropriate members of the committee and management, will develop the committee’s agenda and determine the frequency and length of committee meetings.

## **LEADERSHIP DEVELOPMENT**

### **20. Evaluation of the Chief Executive Officer and Employee Directors**

The Compensation Committee shall evaluate the performance of the Chief Executive Officer of Cadence and any person who is an employee of Cadence and also a member of the Board (an “*Employee Director*”) and shall present its findings to the full Board at least once annually and the Board Chair or Lead Independent Director, as appropriate, will deliver and discuss the evaluation with the Chief Executive Officer or Employee Director. The evaluation should be based on objective criteria, such as performance of the business, accomplishment of long-term strategic objectives, and development of management. This evaluation, together with an evaluation of the achievement of any specific performance objectives, will be used by the Compensation Committee in the course of its deliberations when considering and approving the compensation of the Chief Executive Officer or Employee Director. The Compensation Committee may retain a consulting firm hired to assist in the evaluation of the compensation of the Chief Executive Officer or Employee Director. The Compensation Committee shall have sole authority to retain or terminate such consulting firm, including sole authority to approve the firm’s fees and other retention terms.

### **21. Chief Executive Officer Succession Planning**

The Compensation Committee shall prepare and present to the Board an annual report on Chief Executive Officer succession planning.

There should also be available, on a continuing basis, the Board Chair’s and the Chief Executive Officer’s recommendation as a successor should he/she be unexpectedly disabled.

### **22. Amendments of Guidelines**

The Corporate Governance and Nominating Committee shall review, at least annually, these Guidelines. The Board may amend or modify these Guidelines at any time in accordance with applicable law and regulations