



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

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 skills and characteristics required of Board members in the context of the current composition of the Board. This assessment should include issues of 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 and semiconductor 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 of Directors. 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

The Board has amended Cadence's Bylaws to 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 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 does 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 does 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 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 Chairman and 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 Chairman of the Board and Chief Executive Officer should be separate or combined and, if it is to be separate, whether the Chairman 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 Chairman of the Board, the independent Directors shall designate a non-employee to be a Lead Director in accordance with Section 16 hereof.

Board Composition and Performance

5) Size of the Board; Board Composition and Independence

In recent years, the Board has been comprised of seven, eight, or nine members. Although the Board considers its present size to be appropriate, it 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. The Corporate Governance and Nominating Committee shall periodically review the size of the Board and recommend any proposed changes to the Board.

At least a majority of Directors on the Board shall be "independent directors" within the meaning of the listing standards of the Nasdaq Global Select Market, as determined by the Board.

6) Directors Who Change Their Present Job Responsibility

Directors who change the business or professional responsibility they held when they were elected to the Board, or whose personal circumstances have changed to the extent that it affects their ability to contribute, must submit a letter of resignation to the Board. The Corporate Governance and Nominating Committee shall evaluate the continued appropriateness of the Board membership under the new circumstances and make a recommendation to the Board as to any action to be taken with respect to such offer of resignation. The Board is free to accept or reject the resignation. Non-management Directors should also inform the Chairman of the Board and Chief Executive Officer before they accept an invitation to serve on the board of directors of any other company.

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 Director compensation, if any, should be made at the suggestion 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 may receive from Cadence.

9) Board Responsibilities

The Board acts as the ultimate decision-making body of Cadence and 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 Outside Legal, Accounting or Other Advisors

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

Meeting Procedures

14) Selection of Agenda Items for Board Meetings

The Chairman, 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 Chairman of the Board is an independent Director, the Chairman of the Board shall preside at each meeting of the independent Directors. If the Chairman of the Board is not an independent Director, then the independent Directors shall determine the means of selecting one independent Director (the "**Lead Director**") to preside at each meeting of the independent Directors. Cadence shall disclose the means of selecting the Lead Director in Cadence's proxy statement and a means by which interested parties may communicate directly with the Lead 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. 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 Chairman 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 Global Select 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 and any related rules promulgated by the Securities and Exchange Commission may serve on the Audit Committee. Committee members shall be appointed by the Board.

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 Chairman 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 Chairman of the Board or Lead 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 Chairman'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 Corporate Governance Guidelines. The Board may amend or modify these Corporate Governance Guidelines at any time in accordance with applicable law and regulations.