



**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 judgment, diversity, age, independence, skills such as an understanding of electronic design and semiconductor technologies, international background, etc. -- all in the context of an assessment of the perceived needs of the Board at that point in time. 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 Board is responsible for nominating its own members and, as required, for recommending them for election by the stockholders. The Board delegates the screening process involved to the Corporate Governance and Nominating Committee. 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. The Corporate Governance and Nominating Committee shall establish procedures for any director who is not elected to tender his or her resignation. 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 will act on the Corporate Governance and Nominating Committee's recommendation within ninety (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, 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.

4) Board Leadership

The Board should be free to make this choice any way that seems best for 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 should designate a non-employee to be Lead Director.

Board Composition and Performance

5) Size of the Board; Board Composition

In recent years, the Board has been comprised of eight or nine members. It is the sense of the Board that this size is about right. However, the Board would be willing to increase the size of the Board in order to accommodate the availability of an outstanding candidate(s).

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 in order to provide the Board an opportunity, through the Corporate Governance and Nominating Committee, to review the continued appropriateness of Board membership under these circumstances. 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 review, at least annually, each Director's continuation on the Board. 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 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 concurrence 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

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.

10) Access to Outside Legal, Accounting or Other Advisors

The Board and its Committees shall, as appropriate, obtain advice and assistance from outside legal, accounting or other advisors. Cadence shall pay the fees and expenses of any such outside advisors.

11) Continuing Education of Directors

Each Director is encouraged to attend continuing education programs designed for directors of publicly-traded companies.

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 the Company 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 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.

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) 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.

18) 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

19) Evaluation Of The Chief Executive Officer

The Board of Directors shall evaluate the Chief Executive Officer 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. 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 the compensation of the Chief Executive Officer. The Compensation Committee may retain a consulting firm hired to assist in the evaluation of the compensation of the Chief Executive Officer. 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.

20) 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.

21) Amendments of Guidelines

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