

CADENCE DESIGN SYSTEMS INC

Form DEF 14A

March 27, 2009

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
SCHEDULE 14A
(RULE 14a-101)
SCHEDULE 14A INFORMATION
Proxy Statement Pursuant To Section 14(a) of the Securities
Exchange Act of 1934 (Amendment No.)**

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

Confidential, for use of the Commission Only (as permitted by Rule 14a-6(e)(2))

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to § 240.14a-12

CADENCE DESIGN SYSTEMS, INC.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)

Payment of Filing Fee (Check the appropriate box):

No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

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(3) Filing Party:

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**CADENCE DESIGN SYSTEMS, INC.
2655 SEELY AVENUE
SAN JOSE, CALIFORNIA 95134**

**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS
To Be Held on May 13, 2009**

TO THE STOCKHOLDERS OF CADENCE DESIGN SYSTEMS, INC.:

NOTICE IS HEREBY GIVEN that the Annual Meeting of Stockholders of CADENCE DESIGN SYSTEMS, INC., a Delaware corporation, will be held on May 13, 2009, at 1:00 p.m. Pacific time, at Cadence's offices located at 2655 Seely Avenue, Building 10, San Jose, California 95134 for the following purposes:

1. To elect directors to serve until the 2010 Annual Meeting of Stockholders and until their successors are elected and qualified.
2. To approve an amendment to the Cadence Amended and Restated Employee Stock Purchase Plan to increase the number of shares of common stock reserved for issuance thereunder.
3. To ratify the selection of KPMG LLP as the independent registered public accounting firm of Cadence for its fiscal year ending January 2, 2010.
4. To transact such other business as may properly come before the meeting or any adjournment or postponement thereof.

These items of business are more fully described in the proxy statement accompanying this notice.

Cadence's Board of Directors has fixed the close of business on March 17, 2009 as the record date for the determination of stockholders entitled to notice of, and to vote at, this Annual Meeting of Stockholders and at any adjournment or postponement thereof.

By Order of the Board of Directors

James J. Cowie
Secretary

San Jose, California
March 27, 2009

ALL STOCKHOLDERS ARE CORDIALLY INVITED TO ATTEND THE MEETING IN PERSON. WHETHER OR NOT YOU EXPECT TO ATTEND THE MEETING, PLEASE CAST YOUR VOTE VIA THE INTERNET OR BY TELEPHONE AS INSTRUCTED IN THE NOTICE OF INTERNET AVAILABILITY OF PROXY

MATERIALS AS PROMPTLY AS POSSIBLE. IF YOU CHOSE TO RECEIVE PAPER COPIES OF YOUR PROXY MATERIALS, INCLUDING THE PROXY CARD, PLEASE COMPLETE, DATE, SIGN AND RETURN THE PROXY CARD IN THE RETURN ENVELOPE PROVIDED (WHICH HAS PREPAID POSTAGE IF MAILED IN THE UNITED STATES) AS PROMPTLY AS POSSIBLE TO ENSURE YOUR REPRESENTATION AT THE MEETING. EVEN IF YOU HAVE GIVEN YOUR PROXY, YOU MAY STILL VOTE IN PERSON AT THE MEETING. PLEASE NOTE, HOWEVER, THAT IF YOUR SHARES ARE HELD OF RECORD BY A BROKER, BANK OR OTHER NOMINEE AND YOU WISH TO VOTE AT THE MEETING, YOU MUST OBTAIN A PROXY ISSUED IN YOUR NAME FROM THE RECORD HOLDER.

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**CADENCE DESIGN SYSTEMS, INC.
2655 SEELY AVENUE
SAN JOSE, CALIFORNIA 95134**

**PROXY STATEMENT
FOR ANNUAL MEETING OF STOCKHOLDERS
MAY 13, 2009**

INFORMATION CONCERNING SOLICITATION AND VOTING

GENERAL

The enclosed proxy is solicited on behalf of the Board of Directors of Cadence Design Systems, Inc., a Delaware corporation, which is referred to in this proxy statement as Cadence, for use at its Annual Meeting of Stockholders to be held on May 13, 2009, at 1:00 p.m. Pacific time, or at any adjournment or postponement thereof, for the purposes set forth in this proxy statement and in the accompanying notice of annual meeting. The annual meeting will be held at Cadence's offices located at 2655 Seely Avenue, Building 10, San Jose, California 95134. Cadence intends to make available this proxy statement on the Internet at http://www.cadence.com/company/investor_relations/index.aspx on or about March 27, 2009 to all stockholders entitled to vote at the annual meeting.

INTERNET AVAILABILITY OF PROXY MATERIALS

Pursuant to the rules adopted by the U.S. Securities and Exchange Commission, which is referred to in this proxy statement as the SEC, Cadence is furnishing proxy materials to its stockholders primarily via the Internet, rather than mailing paper copies of these materials to each stockholder. We believe that this process expedites stockholders receipt of the proxy materials, lowers the costs of our annual meeting and helps conserve natural resources. On or about March 27, 2009, we will mail to each stockholder (other than those who previously requested electronic or paper delivery) a Notice of Internet Availability of Proxy Materials containing instructions on how to access and review the proxy materials, including our proxy statement and annual report, on the Internet and how to access a proxy card to vote on the Internet or by telephone. The Notice of Internet Availability of Proxy Materials also contains instructions on how to request a paper copy of the proxy materials. If you received a Notice of Internet Availability of Proxy Materials by mail, you will not receive a paper copy of the proxy materials unless you request one. If you received a Notice of Internet Availability of Proxy Materials by mail and would like to receive a paper copy of the proxy materials, please follow the instructions included in the Notice of Internet Availability of Proxy Materials. We may choose to mail a paper copy of the proxy materials, including our proxy statement and annual report, to one or more stockholders.

An audio webcast of the annual meeting will also be available on the investor relations page of Cadence's website at www.cadence.com. The webcast will allow investors to listen to the proceedings of the annual meeting, but stockholders accessing the annual meeting using the Internet will not be considered present at the annual meeting by virtue of this access and will not be able to vote on matters presented at the annual meeting or ask any questions of

Cadence's directors, management or independent registered public accounting firm. For a description of how to vote on matters presented at the annual meeting, see "Voting" below. The webcast will begin promptly at 1:00 p.m. Pacific time on the day of the annual meeting and may be accessed on Cadence's website for thirty (30) days thereafter.

VOTING RIGHTS AND OUTSTANDING SHARES

Only holders of record of Cadence's outstanding common stock, \$0.01 par value per share, at the close of business on March 17, 2009, which is referred to in this proxy statement as the record date, will be entitled to notice of and to vote at the annual meeting. At the close of business on the record date, Cadence had 263,488,918 shares of common stock outstanding and entitled to vote. Each holder of record of common stock outstanding on the record date will be entitled to one vote for each share held on all matters to be voted on at the annual meeting.

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QUORUM; ABSTENTIONS; BROKER NON-VOTES

The presence in person or by proxy of a majority of the shares of Cadence common stock outstanding and entitled to vote on the record date is required for a quorum at the annual meeting. Both abstentions and broker non-votes are counted as present for purposes of determining the presence of a quorum, but broker non-votes will not be counted towards the tabulation of votes cast on proposals presented to stockholders.

Broker non-votes include shares for which a bank, broker or other nominee holder (i.e., record holder) has not received voting instructions from the beneficial owner and for which the record holder does not have discretionary power to vote on a particular matter. Under the rules that govern brokers who are record holders of shares that are held in brokerage accounts for the beneficial owners of the shares, brokers who do not receive voting instructions from their clients have the discretion to vote uninstructed shares on routine matters but have no discretion to vote such uninstructed shares on non-routine matters. The proposals to be voted on at this year's annual meeting include both routine matters such as the proposal regarding the election of directors and the ratification of Cadence's independent registered public accounting firm, and a non-routine matter such as the proposal regarding Cadence's Amended and Restated Employee Stock Purchase Plan.

VOTE REQUIRED

The election of directors at the annual meeting requires that each director receive a majority of the votes cast with respect to that director at the annual meeting (number of shares voted for a director must exceed the number of votes cast against that director), provided that in a contested election, the directors shall be elected by the affirmative vote of a plurality of the votes cast at the annual meeting.

All other items to be voted on at the annual meeting require the affirmative vote of a majority of the shares present in person or represented by proxy and entitled to vote at the annual meeting.

BNY Mellon Shareowner Services has been appointed as the inspector of elections for this year's annual meeting. All votes will be tabulated by a representative of BNY Mellon Shareowner Services. This representative will also separately tabulate affirmative and negative votes, abstentions and broker non-votes.

VOTING

Stockholders of record have three options for submitting their vote prior to the annual meeting: (i) vote via the Internet by following the instructions provided in the Notice of Internet Availability of Proxy Materials, (ii) vote via telephone by following the instructions provided in the Notice of Internet Availability of Proxy Materials, or (iii) vote via mail by completing, signing, dating and mailing a paper proxy card in a pre-addressed envelope, which you can request as outlined in the Notice of Internet Availability of Proxy Materials.

If a stockholder attends the annual meeting, he or she may also submit his or her vote in person, and any votes that were previously submitted whether via the Internet, by telephone or by mail will be superseded by the vote that is cast at the annual meeting. Whether the proxy is submitted via the Internet, by telephone or by mail, if it is properly completed and submitted and if it is not revoked prior to the annual meeting, the shares will be voted at the annual meeting in the manner set forth in this proxy statement or as otherwise specified by the stockholder.

REVOCABILITY OF PROXIES

Whether the proxy is submitted via the Internet, by telephone or by mail, any person giving a proxy pursuant to this solicitation has the power to revoke it at any time before it is voted. A proxy may be revoked by providing a written

notice of revocation or a duly executed proxy bearing a later date to Cadence's Corporate Secretary at Cadence's corporate offices located at 2655 Seely Avenue, Building 5, San Jose, California 95134, or it may be revoked by attending the meeting and voting in person. Attendance at the annual meeting will not, by itself, be sufficient to revoke a proxy. Accessing the webcast of the annual meeting will not, by itself, constitute attendance at the annual meeting and will not enable a stockholder to revoke his, her or its proxy using the Internet.

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SOLICITATION

Cadence will bear the entire cost of soliciting proxies, including the preparation, assembly, printing and mailing of this proxy statement, the proxy card and any additional information furnished to stockholders in connection with the matters to be voted on at the annual meeting. Copies of solicitation materials will be furnished to banks, brokerage houses, fiduciaries and custodians holding shares of Cadence common stock beneficially owned by others for forwarding to the beneficial owners. Cadence will reimburse persons representing beneficial owners of its common stock for their costs of forwarding solicitation materials to the beneficial owners. The solicitation of proxies through this proxy statement may be supplemented by telephone, facsimile, use of the Internet or personal solicitation by directors, officers or other employees of Cadence and by Georgeson Inc., which is referred to in this proxy statement as Georgeson. Cadence has retained Georgeson to solicit proxies and to separately prepare a stockholder vote analysis of certain proposals for an aggregate fee of approximately \$10,000, plus reasonable expenses. No additional compensation will be paid to directors, officers or other employees of Cadence or any of its subsidiaries for their services in soliciting proxies.

HOUSEHOLDING INFORMATION

The SEC has adopted rules that allow companies and intermediaries, such as brokers, to deliver a single copy of certain proxy materials to certain stockholders who share the same address, a practice referred to as householding. Some banks, brokers and other nominees will be householding Cadence's Notice of Internet Availability of Proxy Materials and proxy materials for stockholders who do not participate in electronic delivery of proxy materials, unless contrary instructions are received from the affected stockholders. Once you have received notice from your broker or other nominee holder of your Cadence common stock that the broker or other nominee holder will be householding the Notice of Internet Availability of Proxy Materials or proxy materials to your address, householding will continue until you are notified otherwise or until you revoke your consent. If, at any time, you no longer wish to participate in householding and would prefer to receive a separate Notice of Internet Availability of Proxy Materials and proxy materials, or if you are receiving multiple copies of the Notice of Internet Availability of Proxy Materials and proxy materials and wish to receive only one copy, please notify your broker or other nominee holder of your Cadence common stock. You may also request additional copies of Cadence's Notice of Internet Availability of Proxy Materials and proxy materials by writing to Cadence's Corporate Secretary at Cadence's corporate offices located at 2655 Seely Avenue, Building 5, San Jose, California 95134, or by calling Cadence's Investor Relations Group at (408) 944-7100 or e-mailing the Investor Relations Group at investor_relations@cadence.com. Please note, however, that if you wish to receive a paper copy of the proxy or other proxy materials for purposes of this year's annual meeting, you should follow the instructions provided in the Notice of Internet Availability of Proxy Materials. Copies of Cadence's SEC filings and certain other submissions are made available free of charge on the investor relations page of Cadence's website at www.cadence.com as soon as practicable after Cadence electronically files or furnishes these documents with the SEC. Information on Cadence's website is not incorporated by reference in this proxy statement unless expressly noted.

CORPORATE GOVERNANCE

Cadence common stock is listed on the NASDAQ Global Select Market, which is referred to in this proxy statement as NASDAQ.

Cadence and its Board of Directors, which is referred to in this proxy statement as the Board, regularly review and evaluate Cadence's corporate governance practices. Cadence's corporate governance documents are posted on the investor relations page of its website at www.cadence.com. Paper copies of these documents are also available to stockholders upon written request directed to Cadence's Corporate Secretary at Cadence's corporate offices located at 2655 Seely Avenue, Building 5, San Jose, California 95134.

CORPORATE GOVERNANCE GUIDELINES

The Board has adopted Corporate Governance Guidelines of the Board of Directors, which are referred to in this proxy statement as the Corporate Governance Guidelines. The Corporate Governance Guidelines cover various topics relating to the Board and its activities including, but not limited to, the selection and composition of the Board, Board leadership, compensation of directors, responsibilities of directors, Board access to senior

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management and outside advisors, meeting procedures and committee matters. The Corporate Governance and Nominating Committee of the Board periodically reviews the Corporate Governance Guidelines, which may be amended by the Board at any time.

CODE OF BUSINESS CONDUCT

Cadence has adopted a Code of Business Conduct to provide standards for ethical conduct in dealing with customers, suppliers, agents, political entities and others. The Code of Business Conduct applies to all Cadence directors, officers and employees (and those of its subsidiaries), including Cadence's President and Chief Executive Officer, who is referred to in this proxy statement as the CEO, and Cadence's Chief Financial Officer, who is referred to in this proxy statement as the CFO. Compliance with the Code of Business Conduct is a condition of continued service to or employment with Cadence. The Code of Business Conduct covers topics including, but not limited to, integrity and confidentiality of assets and information, conflicts of interest, compliance with federal and state securities laws, employment practices, payment practices, compliance with competition laws and regulations and compliance with other laws.

Except as provided by applicable law, each person subject to the Code of Business Conduct has the responsibility to report any possible misconduct, including unethical business practices, violations of the Code of Business Conduct and apparent or suspected illegal activities, in the following manner:

Employees must report to the Office of the General Counsel or, in the event the report concerns a Cadence executive officer, to the General Counsel or the chair of the Corporate Governance and Nominating Committee (employees may report possible misconduct on an anonymous basis);

Executive officers must report to the General Counsel or, if the report concerns the General Counsel, to the chair of the Corporate Governance and Nominating Committee; and

Directors must report to the chair of the Corporate Governance and Nominating Committee or, if the report concerns the chair of that committee, to another member of the committee.

Any waiver of a provision of the Code of Business Conduct with respect to a director or an executive officer may only be made by the Board or the Corporate Governance and Nominating Committee. Any waivers for other employees may be granted only by the CEO or the General Counsel, or their respective designees. To the extent required under applicable SEC rules, Cadence will disclose material amendments to the Code of Business Conduct and any waiver of its provisions with respect to any director or executive officer by filing a Current Report on Form 8-K with the SEC or posting such information on its website at www.cadence.com.

STOCK OWNERSHIP GUIDELINES

The Board has adopted Stock Ownership Guidelines to align the interests of its directors and executive officers with the interests of stockholders and to further promote Cadence's commitment to sound corporate governance. Cadence does not require that directors or executive officers own a specific number of shares because it expects that directors and executive officers will act in Cadence's best interests regardless of the number of shares they own. However, the Board has established share ownership guidelines for its members and Cadence's executive officers. Each member of the Board is encouraged to hold at least 5,000 shares of Cadence common stock within the first two years of his or her election to the Board, and Cadence's executive officers are encouraged to hold at least the following number of shares of Cadence common stock no later than five years after the date of his or her designation to the following offices: CEO 100,000 shares; CFO 50,000 shares; and Senior Vice Presidents 25,000 shares. All directors and executive officers met the Stock Ownership Guidelines as of the record date.

CADENCE S BOARD OF DIRECTORS

DIRECTOR INDEPENDENCE

Cadence s Corporate Governance Guidelines require that at least a majority of the Board be independent directors within the meaning of the listing standards of NASDAQ. To be independent a director must not have a

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relationship that, in the opinion of the Board, would interfere with his or her exercise of independent judgment in carrying out the responsibilities of a Cadence director. In making these determinations, the Board considers all relevant facts and circumstances and applies the following standards:

A director who is employed by Cadence or any of its subsidiaries, or whose family member is employed as an executive officer of Cadence or any of its subsidiaries, is not independent until three years after the end of the employment relationship;

A director who accepts, or whose family member accepts, more than \$120,000 in compensation from Cadence or any of its subsidiaries, other than compensation for Board or Board committee service, compensation paid to a family member who is a non-executive employee of Cadence or any of its subsidiaries and benefits under a tax-qualified retirement plan or non-discretionary compensation, during any period of twelve consecutive months is not independent until three years after his or her receipt of such payments;

A director who is, or whose family member is, a current partner or employee of Cadence's independent registered public accounting firm is not independent;

A director who was, or whose family member was, a partner or employee of Cadence's independent registered public accounting firm who worked on Cadence's audit during that time is not independent until three years after the end of the employment relationship;

A director who is, or whose family member is, employed as an executive officer of another entity for which at any time during the past three years any of Cadence's executive officers served on the compensation committee of such entity is not independent; and

A director who is, or whose family member is, a partner in, or a controlling stockholder or executive officer of, any organization to which Cadence made, or from which Cadence received, payments for property or services in the current fiscal year or any of the past three fiscal years that exceed in such year the greater of 5% of the recipient's consolidated gross revenues or \$200,000, other than payments arising solely from investments in Cadence securities or payments under non-discretionary charitable contribution matching programs, is not independent until three years after such payments are made or received.

The Board has determined that Dr. Shoven and Messrs. Lucas, Scalise, Siboni and Swainson, who constitute a majority of the Board, are independent directors within the meaning of the listing standards of NASDAQ.

BOARD MEETINGS

During the fiscal year ended January 3, 2009, the Board held eleven (11) meetings, in addition to taking actions by unanimous written consent in lieu of a meeting. Each Board member attended more than 75% of the meetings of the Board and of the committees on which he served that were held during the period for which he was a director or committee member during fiscal 2008. Cadence's Corporate Governance Guidelines encourage directors to attend the annual meeting of stockholders. All of Cadence's then current directors attended the 2008 Annual Meeting of Stockholders.

Under Cadence's Corporate Governance Guidelines, Cadence's independent directors meet separately at least twice annually. Pursuant to Cadence's Corporate Governance Guidelines, Dr. Shoven, as the Chairman of the Board and an independent director, presides over meetings of the independent directors.

CONTACTING THE BOARD OF DIRECTORS

Stockholders interested in communicating directly with the Board may do so by sending a letter to the Board, or to any individual director, group of directors or committee of the Board, c/o the Office of the Corporate Secretary, Cadence Design Systems, Inc., 2655 Seely Avenue, Building 5, San Jose, California 95134. Inquiries and other communications may be submitted anonymously and confidentially. The Office of the Corporate Secretary will review the correspondence and will transmit such communications as soon as practicable to the identified director addressee(s), unless there are legal or other considerations that mitigate against further transmission of the communication, as determined by the Corporate Secretary. In that regard, certain items that are unrelated to the

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duties and responsibilities of the Board will not be forwarded by the Corporate Secretary, such as business solicitations or advertisements, junk mail and mass mailings, new product suggestions, product complaints, product inquiries, resumes and other forms of job inquiries, spam and surveys. In addition, material that the Corporate Secretary determines is unduly hostile, threatening, illegal or similarly unsuitable will be excluded, with the provision that the Board or individual directors so addressed shall be advised of any communication withheld for legal or other considerations as soon as practicable.

COMMITTEES OF THE BOARD OF DIRECTORS

The Board currently has the following committees:

Audit Committee;

Compensation Committee;

Corporate Governance and Nominating Committee;

Finance Committee; and

Technology Committee.

Each of the above committees has a written charter approved by the Board. The charters of the Audit Committee, the Compensation Committee and the Corporate Governance and Nominating Committee are posted on the investor relations page of Cadence's website at www.cadence.com. The members and chairs of the current committees are identified in the following table.

Director	Audit	Compensation	Corporate Governance and Nominating	Finance	Technology
Donald L. Lucas	ü	ü	Chair	Chair	
Dr. Alberto Sangiovanni-Vincentelli					Chair
George M. Scalise		ü	ü		ü
Dr. John B. Shoven	ü	Chair	ü	ü	
Roger S. Siboni	Chair		ü	ü	
John A.C. Swainson			ü		
Lip-Bu Tan				ü	ü

Audit Committee

The Board has determined that all members of the Audit Committee are independent as defined by the NASDAQ listing standards and Rule 10A-3 of the Securities Exchange Act of 1934, as amended, which is referred to in this proxy statement as the Exchange Act. The Board has also determined that each of the members of the Audit Committee is an audit committee financial expert as defined in rules promulgated by the SEC. In addition, the Board has determined that each Audit Committee member is able to read and understand fundamental financial statements and, other than strictly in his capacity as a member of the Board or a committee of the Board, has not participated in preparing Cadence's financial statements in any of the past three years.

The Audit Committee charter was most recently amended in February 2009 and complies with the NASDAQ listing standards. The duties and responsibilities of the Audit Committee include:

Appointing, retaining, compensating, evaluating, overseeing and terminating Cadence's independent registered public accounting firm and annually evaluating the qualifications, performance and independence of the independent registered public accounting firm, including an evaluation of the lead partner of the independent registered public accounting firm;

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Pre-approving all audit and permissible non-audit services to be provided by the independent registered public accounting firm and establishing policies and procedures for such pre-approval;

Reviewing and discussing with the independent registered public accounting firm their report regarding all relationships or services between Cadence and the independent registered public accounting firm and any other relationship or services that may impact the objectivity and independence of the independent registered public accounting firm;

Reviewing with the independent registered public accounting firm their audit procedures, including the scope and timing of the audit, the results of the annual audit and any audit problems or difficulties and management's response to any such problems or difficulties;

Meeting to review with management and the independent registered public accounting firm Cadence's annual and quarterly financial statements, reports and specific disclosures, and recommending to the Board whether the financial statements should be included in Cadence's Annual Report on Form 10-K;

Reviewing and discussing the adequacy and effectiveness of Cadence's internal controls and disclosure controls and procedures; and

Establishing and overseeing procedures for the receipt, retention and treatment of complaints regarding accounting, internal controls or auditing matters, including a system for the confidential anonymous submission of accounting or auditing concerns by Cadence employees.

The Audit Committee held fifteen (15) meetings during fiscal 2008. See Report of the Audit Committee below for more information.

Compensation Committee

The Compensation Committee of the Board is comprised of three non-employee directors of Cadence, each of whom the Board has determined to be independent as defined by the listing standards of NASDAQ. In addition, all Compensation Committee members are outside directors within the meaning of Section 162(m) of the Internal Revenue Code of 1986, as amended (which is referred to in this proxy statement as the Code), to allow Cadence a tax deduction for certain employee compensation exceeding \$1,000,000 for an individual. All Compensation Committee members are also outside directors within the meaning of Rule 16b-3 of the Exchange Act to allow Cadence to exempt certain option grants and similar transactions from the short-swing profits prohibition of Section 16 of the Exchange Act. The Compensation Committee acts on behalf of the Board, as provided in its charter, to identify, review and approve corporate goals and objectives relevant to the compensation of Cadence's CEO and any director who is also a Cadence employee, evaluate the performance of the CEO and any director who is also a Cadence employee in light of those goals and objectives, and determine and approve the CEO's and other executive officers' compensation. Although the Compensation Committee may delegate its authority to management when it deems it to be appropriate and in the best interests of Cadence, the Compensation Committee did not delegate any authority with respect to the consideration and determination of executive officer and director compensation in fiscal 2008 and does not currently expect to delegate any such authority in the future. At or near the beginning of each fiscal year, the Compensation Committee typically establishes base salary levels and target bonuses for the CEO and other executive officers of Cadence. In addition, the Compensation Committee administers and, if deemed necessary, may amend the Senior Executive Bonus Plan, which is referred to in this proxy statement as the Bonus Plan, Cadence's equity-based compensation plans and stock purchase plans, and Cadence's deferred compensation plans. The Compensation Committee also reviews and recommends to the Board the compensation of Cadence's directors.

The Compensation Committee charter was most recently amended in February 2009. The duties and responsibilities of the Compensation Committee include:

Identifying, reviewing and approving corporate goals and objectives relevant to the compensation of Cadence's CEO and any director who is also a Cadence employee, evaluating the performance of the CEO and any employee director in light of those goals and objectives and determining and approving, either as a

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committee or together with the independent directors of the Board, the compensation of the CEO and any employee director based on such evaluation;

Overseeing the evaluation of the executive officers of Cadence;

Reviewing periodically Cadence's management succession planning in consultation with the CEO and reporting to the Board, at least annually, on CEO succession planning;

Reviewing compensation programs and determining the compensation of Cadence's executive officers;

Reviewing and discussing with management Cadence's Compensation Discussion and Analysis and related disclosures that are required be included in Cadence's annual report and proxy statement, recommending to the Board, based on the review and discussions, whether the Compensation Discussion and Analysis should be included in the annual report and the proxy statement, and preparing the compensation committee report that SEC rules require to be included in the annual report and the proxy statement; and

Reviewing and, in certain cases, amending and administering Cadence's general compensation plans including:

Equity incentive and stock purchase plans;

Benefit programs; and

Bonus plans.

In fiscal 2008, the Compensation Committee retained the services of an independent compensation consultant, Semler Brossy Consulting Group, LLC, or Semler Brossy, for advice regarding the compensation of Cadence's executive officers. The Compensation Committee believes that having an independent evaluation of executive officer salary, bonus and equity compensation is a valuable tool for the Compensation Committee and Cadence's stockholders. Semler Brossy is not engaged to perform any other work for Cadence.

The Compensation Committee retained Semler Brossy for a number of purposes, including:

Constructing and reviewing peer groups for compensation comparison purposes;

Performing a competitive assessment of Cadence's compensation programs, practices and levels for its executive officers and other select employees; and

Providing information on typical industry practices concerning employment, severance and change in control agreements.

The Compensation Committee made a number of compensation decisions, including decisions with respect to Cadence's Named Executive Officers (as defined below in Compensation of Executive Officers), based on the competitive assessments provided by and through consultation with Semler Brossy. In addition, Cadence's CEO typically makes assessments and recommendations to the Compensation Committee on whether there should be adjustments to the annual base salary, annual cash incentive compensation and long-term equity incentive compensation of executive officers other than himself based upon an assessment of certain factors described further in Compensation Discussion and Analysis below. The Compensation Committee reviews such assessments and recommendations and determines whether or not to approve or modify the CEO's recommendations. The Compensation Committee's decisions are made, however, solely by the Compensation Committee, in its sole

discretion. See Compensation Discussion and Analysis below for more information.

The Compensation Committee held ten (10) meetings during fiscal 2008.

Corporate Governance and Nominating Committee

The Board has determined that all Corporate Governance and Nominating Committee members are independent as defined by the NASDAQ listing standards.

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The Corporate Governance and Nominating Committee charter was most recently amended in February 2009. The duties and responsibilities of the Corporate Governance and Nominating Committee include:

Determining any criteria for selecting new directors;

Interviewing and evaluating candidates for Board membership;

Evaluating director nominees recommended by stockholders;

Reviewing, at least annually, the appropriate skills and characteristics required for directors in the context of the composition of the Board;

Reviewing periodically the size of the Board and recommending any changes to the Board;

Recommending to the Board director nominees for election at the next annual or special meeting of stockholders or to fill any vacancies or newly created directorships that may occur between such meetings;

Making a recommendation to the Board as to whether to accept or reject the resignation of an incumbent director who receives a greater number of votes cast against than votes cast for at an annual or special meeting of stockholders;

Reviewing Cadence's Corporate Governance Guidelines and Code of Business Conduct;

Overseeing the administration of Cadence's Code of Business Conduct and administering the Code of Business Conduct with respect to Cadence's directors and executive officers;

Reviewing and approving any related person transactions involving Cadence directors and executive officers and establishing policies and procedures for the review, approval and ratification of such transactions; and

Overseeing the annual evaluation of the Board and its committees.

The Corporate Governance and Nominating Committee employs a variety of methods to identify and evaluate director nominees. The committee periodically assesses the appropriate size of the Board, and whether any vacancies on the Board are expected due to retirement of directors or otherwise, and the need for particular expertise on the Board. If vacancies are anticipated or otherwise arise, the committee considers potential director candidates. Additionally, candidates may come to the attention of the committee through current Board members, officers, professional search firms, stockholders or other persons. These candidates are evaluated at regular or special meetings of the committee, and may be considered at any point during the year. In connection with this evaluation, the Corporate Governance and Nominating Committee determines whether to interview the prospective nominee and, as warranted, one or more members of the committee, and others as appropriate, interview prospective nominees in person or by telephone. After completing this evaluation and interview, the committee makes a recommendation to the full Board as to the persons who should be nominated or elected by the Board, and the Board determines whether to reject, elect or nominate the candidate, as the case may be, after considering the recommendation of the committee.

The Corporate Governance and Nominating Committee will consider individuals recommended by stockholders for nomination as a director pursuant to the provisions of Cadence's Bylaws relating to stockholder nominations. A stockholder who wishes to recommend a prospective nominee for the Board should notify Cadence's Corporate Secretary or the Corporate Governance and Nominating Committee in writing with the supporting material required by Cadence's Bylaws as described under Other Matters Stockholder Proposals and Nominations below, and any other

material the stockholder considers necessary or appropriate.

Although the Board currently has no defined minimum criteria for consideration or continued service as a director, the Corporate Governance and Nominating Committee evaluates prospective nominees against the standards and qualifications set out in Cadence's Corporate Governance Guidelines and other relevant factors as it deems appropriate. Among the factors the Board may consider are the current composition of the Board, the need for particular expertise, the prospective nominee's experience, judgment, understanding of electronic design and semiconductor technologies, and other relevant characteristics. At least a majority of directors on the Board must be independent as defined by the NASDAQ listing standards and as determined by the Board.

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The Corporate Governance and Nominating Committee held five (5) meetings during fiscal 2008.

Finance Committee

The Finance Committee, on behalf of the Board, evaluates and approves financings, mergers, acquisitions, divestitures and other financial commitments of Cadence to unaffiliated third parties that involve amounts greater than \$50 million and up to \$125 million.

The Finance Committee held eighteen (18) meetings during fiscal 2008.

Technology Committee

The Technology Committee monitors trends in technology that may affect Cadence's strategic plans, advises the Board regarding Cadence's research and development activities and reviews and makes recommendations to management regarding Cadence's leading technologists and researchers.

The Technology Committee held five (5) meetings during fiscal 2008.

Temporary Search Committee for New CEO

In connection with the resignation of Michael J. Fister as CEO of Cadence on October 15, 2008, the Board created a temporary committee to identify, evaluate and recommend to the Board qualified candidates to serve as CEO of Cadence. The temporary committee was comprised of Dr. Shoven and Messrs. Lucas, Scalise, Siboni and Tan, with Dr. Shoven and Mr. Tan serving as Co-Chairs of the temporary committee. The temporary committee was dissolved on January 8, 2009 upon the appointment of Mr. Tan as CEO of Cadence.

The temporary search committee held five (5) meetings during fiscal 2008.

COMPENSATION OF DIRECTORS

Directors who are Cadence employees do not receive additional compensation for their service on the Board. The following table sets forth the compensation earned by Cadence's non-employee directors for their service on the Board in fiscal 2008:

DIRECTOR COMPENSATION FOR FISCAL 2008

Name	Fees Earned or Paid in	Option	All Other	Total
	Cash (\$)	Awards \$(1)(2)	Compensation \$(3)	
Donald L. Lucas	\$ 235,000	\$ 141,743	\$ 5,932	\$ 382,675
Dr. Alberto Sangiovanni-Vincentelli	146,000	141,743	167,820	455,563
George M. Scalise	130,000	141,743	0	271,743
Dr. John B. Shoven	277,000	283,487	5,395	565,882