

CADENCE DESIGN SYSTEMS INC
Form PRE 14A
March 12, 2019
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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 under § 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:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

Fee paid previously with preliminary materials.

Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

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NOTICE OF 2019 ANNUAL MEETING OF STOCKHOLDERS

The 2019 Annual Meeting of Stockholders of CADENCE DESIGN SYSTEMS, INC., a Delaware corporation, will be held as follows:

When:

May 2, 2019

1:00 p.m. Pacific Time

Where:

Cadence San Jose Campus

2655 Seely Avenue, Building 10

San Jose, California 95134

Items of Business:

The purpose of the 2019 Annual Meeting of Stockholders is to consider and take action on the following:

1. To elect the nine directors named in the proxy statement to serve until the 2020 Annual Meeting of Stockholders and until their successors are elected and qualified, or until the directors' earlier death, resignation or removal.
2. To approve the amendment of the Omnibus Equity Incentive Plan.
3. To approve the amendment of the Restated Certificate of Incorporation to eliminate supermajority vote requirements for specified corporate actions.
4. To vote on an advisory resolution to approve named executive officer compensation.
5. To ratify the selection of KPMG LLP as the independent registered public accounting firm of Cadence for its fiscal year ending December 28, 2019.
6. 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.

Record Date:

Holders of Cadence Design Systems, Inc. common stock at the close of business on March 4, 2019 are entitled to notice of and to vote at the 2019 Annual Meeting of Stockholders and any adjournment or postponement thereof.

How to Vote:

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Your vote is important to us. Please cast your vote promptly via the internet, telephone or mail. Specific instructions on how to vote via the internet, telephone or mail or in person are included in the Notice of Internet Availability of Proxy Materials and on the proxy card.

By Order of the Board of Directors,

James J. Cowie

Sr. Vice President, General Counsel and Secretary

San Jose, California

March , 2019

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PROXY STATEMENT

INFORMATION ABOUT THE ANNUAL MEETING

QUESTIONS AND ANSWERS RELATING TO PROXY MATERIALS

1. Why am I receiving these proxy materials?

The enclosed proxy is solicited on behalf of the Board of Directors of Cadence Design Systems, Inc., a Delaware corporation, for the 2019 Annual Meeting of Stockholders (the Annual Meeting) to be held on May 2, 2019, at 1:00 p.m. Pacific Time, or at any adjournment or postponement thereof. The purpose of the Annual Meeting is set forth in this proxy statement and in the accompanying notice of annual meeting.

The Annual Meeting will be held in Building 10 of Cadence s offices located at 2655 Seely Avenue, San Jose, California 95134.

This proxy statement contains important information to consider when deciding how to vote on the matters brought before the Annual Meeting. Stockholders entitled to vote at the Annual Meeting are encouraged to read it carefully.

Cadence intends to publish this proxy statement on the investor relations page of its website at www.cadence.com/cadence/investor_relations on or about March , 2019.

2. How may I obtain Cadence s annual report on Form 10-K?

A copy of Cadence s Annual Report on Form 10-K for the fiscal year ended December 29, 2018 is available free of charge on the internet from the U.S. Securities and Exchange Commission (the SEC) at www.sec.gov and on the investor relations page of Cadence s website at www.cadence.com/cadence/investor_relations.

3. Why did I receive a Notice of Internet Availability of Proxy Materials instead of a paper copy of the proxy materials? How may I obtain a paper copy of the proxy materials?

Pursuant to the rules adopted by 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. This process expedites stockholders receipt of the proxy materials, lowers the costs of the Annual Meeting and helps conserve natural resources.

On or about March , 2019, Cadence will mail to each stockholder (other than those stockholders who previously had requested electronic or paper delivery of the proxy materials) a Notice of Internet Availability of Proxy Materials that contains instructions on how to access and review the proxy materials (including Cadence s proxy statement and annual report) on the internet and how to access a proxy card to vote on the internet or by telephone.

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 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.

4. How can I access the proxy materials over the internet?

Your Notice of Internet Availability of Proxy Materials will contain instructions on how to access and view the proxy materials on the internet and how to request a paper copy of the proxy materials.

The proxy materials are also available on Cadence's website at the following address:
www.cadence.com/cadence/investor_relations.

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5. I received one copy of the proxy materials. May I get additional copies?

You may 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, by calling Cadence's Investor Relations Group at (408) 944-7100 or by emailing the Investor Relations Group at investor_relations@cadence.com.

6. What if I received a notice from my broker stating that it will be householding deliveries to my address? What if I received more than one copy of the Notice of Internet Availability of Proxy Materials and proxy materials?

SEC rules permit 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 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. If you received a single set of proxy materials as a result of householding by your broker and you would like to receive separate copies of such materials, you may also submit a request to Cadence's Corporate Secretary at Cadence's corporate offices located at 2655 Seely Avenue, Building 5, San Jose, California 95134, by calling Cadence's Investor Relations Group at (408) 944-7100 or by emailing the Investor Relations Group at investor_relations@cadence.com.

QUESTIONS AND ANSWERS RELATING TO VOTING

7. Who may vote at the Annual Meeting?

You may vote if you owned shares of Cadence common stock, \$0.01 par value per share, as of the close of business on March 4, 2019, which is the Record Date for the Annual Meeting. At the close of business on the Record Date, Cadence had 281,186,212 shares of common stock outstanding and entitled to vote.

Each share outstanding on the Record Date is entitled to one vote at the Annual Meeting. You are entitled to vote shares that are (i) held directly in your name or (ii) held for you as the beneficial owner in a brokerage account or through a broker, bank or other nominee rather than directly in your name.

8. What is the difference between holding shares as a stockholder of record and as a beneficial owner?

If you own shares of Cadence common stock that are registered directly in your name with Cadence's transfer agent, Computershare Limited, you are considered the stockholder of record of those shares of Cadence common stock.

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If you own shares of Cadence common stock that are held through a broker, bank or other nominee (that is, in street name), you are considered the beneficial owner of those shares of Cadence common stock. In that case, your broker, bank or other nominee is considered the stockholder of record with respect to those shares of Cadence common stock and should be forwarding the proxy materials to you. As the beneficial owner, you have the right to direct your broker, bank or other nominee how to vote those shares of Cadence common stock.

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9. How do I vote my shares if I am a stockholder of record?

If you are a stockholder of record as of the close of business on the Record Date, you have three options for submitting your vote prior to the Annual Meeting: (i) via the internet, (ii) by telephone or (iii) by mail (by completing, signing, dating and mailing a paper proxy card, which a stockholder can request as outlined in the Notice of Internet Availability of Proxy Materials).

If you attend the Annual Meeting, you may also submit your vote in person, in which case any votes that were previously submitted whether via the internet, telephone or mail will be superseded by the vote that is cast at the Annual Meeting.

Whether your proxy is submitted via the internet, telephone or 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 you.

10. How do I vote my shares if I am a beneficial owner through a broker, bank or other nominee?

As the beneficial owner, you have the right to direct your broker, bank or other nominee how to vote, and you are also invited to attend the Annual Meeting. If a broker, bank or other nominee holds your shares, you will receive instructions from them that you must follow in order to have your shares voted.

Shares of Cadence common stock held through a broker, bank or other nominee may be voted in person at the Annual Meeting by you only if you obtain a valid proxy from your broker, bank or other nominee giving you the right to vote the shares.

11. What is the vote required to pass each of the proposals?

Proposal 1 regarding the election of directors, each director must receive a majority of the votes cast (the number of shares voted for a director must exceed the number of votes cast against that director), provided that in a contested election, each director must be elected by the affirmative vote of a plurality of the votes cast at the Annual Meeting.

Proposals 2, 4 and 5 the affirmative vote of a majority of the shares present at the Annual Meeting, either in person or represented by proxy and entitled to vote, is required.

Proposal 3 regarding the amendment of the Restated Certificate of Incorporation, the affirmative vote of holders of not less than a majority of the outstanding voting stock of Cadence is required.

12. Who will bear the cost of this proxy 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 by Cadence 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 Cadence 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 and use of the internet or personal solicitation by directors, officers or other employees of Cadence and by Georgeson LLC. Cadence has retained Georgeson LLC to solicit proxies for an aggregate fee of approximately \$10,500, 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.

13. What are broker non-votes and how are the broker non-votes counted?

Broker non-votes include shares for which a bank, broker or other nominee (*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. Broker non-votes are counted as present for purposes

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of determining the presence of a quorum, but how broker non-votes affect the outcome of a vote differs based on the proposal.

Proposals 1, 2, 4 and 5 broker non-votes will have no effect on voting on such proposals.

Proposal 3 regarding the amendment of the Restated Certificate of Incorporation, broker non-votes will have the same effect as a vote against that proposal.

14. When does a broker have discretion to vote my shares?

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.

Proposal 1 regarding the election of directors, Proposal 2 regarding the approval of the amendment of the Omnibus Equity Incentive Plan, Proposal 3 regarding the approval of the amendment of the Restated Certificate of Incorporation and Proposal 4 regarding an advisory resolution to approve named executive officer compensation are all considered non-routine matters. Therefore, unless you provide voting instructions to any broker holding shares on your behalf, your broker may not use discretionary authority to vote your shares on Proposals 1, 2, 3 or 4.

Proposal 5 regarding the ratification of the selection of Cadence's independent registered public accounting firm is considered a routine matter and brokers are therefore permitted to vote shares held by them without instruction from beneficial owners.

15. How are abstentions counted?

Abstentions are counted as present for purposes of determining the presence of a quorum, but how abstentions affect the outcome of a vote differs based on the proposal.

Proposal 1 regarding the election of directors, abstentions count neither as a vote for nor a vote against a director.

Proposals 2, 3, 4 and 5 abstentions will have the same effect as a vote against that proposal.

16. Can I change a vote I have previously cast?

If you are a stockholder of record, you may change or withdraw your proxy at any time before it is actually voted, irrespective of whether your proxy was submitted via the internet, telephone or mail. Your 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 Annual Meeting and voting in person. Attendance at the Annual Meeting will not, by itself, be sufficient to revoke a proxy.

If you are a beneficial owner who holds your stock through a bank, broker or other nominee, you must contact the bank, broker or other nominee that holds your shares for specific instructions on how to change or revoke your vote.

17. How does the Board of Directors recommend that I vote?

The Board of Directors of Cadence (the Board) recommends that you vote:

Proposal 1: **FOR** the election of each of the nine director nominees named in this proxy statement;

Proposal 2: **FOR** the approval of the amendment of the Omnibus Equity Incentive Plan;

Proposal 3: **FOR** the approval of the amendment of the Restated Certificate of Incorporation;

Proposal 4: **FOR** the advisory resolution to approve named executive officer compensation; and

Proposal 5: **FOR** the ratification of the selection of Cadence s independent registered public accounting firm.

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QUESTIONS AND ANSWERS RELATING TO THE ANNUAL MEETING

18. What constitutes a quorum for the Annual Meeting?

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.

19. Who may attend the Annual Meeting in person?

Stockholders at the close of business on the Record Date as described above, as well as holders of a valid proxy for the Annual Meeting, are entitled to attend the Annual Meeting. Such individuals should be prepared to present government-issued photo identification, such as a valid driver's license or passport, and proof of Cadence stock ownership at the close of business on the Record Date. Stockholders who were not stockholders of record at the close of business on the Record Date but hold shares through a bank, broker or other nominee on the Record Date should be prepared to present proof of beneficial ownership at the close of business on the Record Date, such as an account statement or similar evidence of ownership. Stockholders will be admitted to the Annual Meeting if they comply with these procedures.

20. Who is the inspector of elections for the Annual Meeting?

Computershare has been appointed as the inspector of elections for the Annual Meeting. All votes will be tabulated by a representative of Computershare. This representative will also separately tabulate affirmative and negative votes, abstentions and broker non-votes.

QUESTIONS AND ANSWERS RELATING TO STOCKHOLDER PROPOSALS AND DIRECTOR NOMINATIONS

21. Can stockholders submit proposals for inclusion in Cadence's proxy materials for the next annual meeting?

Stockholder proposals must comply with the requirements of Rule 14a-8 of the Securities Exchange Act of 1934, as amended (the Exchange Act), and must be submitted in writing to Cadence's Corporate Secretary at Cadence's corporate offices located at 2655 Seely Avenue, Building 5, San Jose, California 95134 and received no later than November 1, 2019 to be included in the proxy statement and form of proxy relating to the 2020 Annual Meeting of Cadence stockholders.

22. Can stockholders nominate directors for inclusion in Cadence's proxy materials for the next annual meeting?

Cadence's Bylaws provide that, under certain circumstances, director candidates nominated by a stockholder or group of stockholders may be included in Cadence's annual meeting proxy materials. These proxy access provisions of Cadence's Bylaws provide, among other things, that a stockholder or group of no more than 20 stockholders seeking to include director candidates in Cadence's proxy materials must own at least 3% of Cadence's outstanding shares of

common stock continuously for at least the previous three years. The number of stockholder-nominated candidates to be included in any set of proxy materials cannot exceed the greater of two individuals or 20% of the number of directors (rounded down to the nearest whole number), which number may be reduced under certain circumstances, as described in Cadence's Bylaws. The nominating stockholder or group of stockholders must also deliver the information required by Cadence's Bylaws and satisfy the other applicable requirements of Cadence's Bylaws, and each nominee must meet the qualifications set forth in Cadence's Bylaws.

Notices to include stockholder-nominated candidates in Cadence's proxy materials for the 2020 Annual Meeting of stockholders must be submitted in writing to Cadence's Corporate Secretary at Cadence's corporate offices located at 2655 Seely Avenue, Building 5, San Jose, California 95134 no later than the close of business on January 3, 2020 and no earlier than the close of business on December 4, 2019, and must otherwise satisfy the requirements set forth in Cadence's Bylaws. However, if the date of the 2020 Annual Meeting of Cadence stockholders changes by more than 30 days from the first anniversary

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of the 2019 Annual Meeting, nomination notices must be submitted in writing to Cadence's Corporate Secretary no later than the close of business on the tenth day following the first public announcement of the date of the meeting.

23. What is the deadline for stockholders to submit director nominations or other proposals for consideration at the next annual meeting that stockholders do not seek to include in Cadence's proxy materials?

For director nominations or other business proposals that the stockholder does not seek to include in Cadence's 2020 proxy materials pursuant to the proxy access provisions set forth in Cadence's Bylaws or Rule 14a-8 under the Exchange Act, the nominations or proposals must be submitted in writing to Cadence's Corporate Secretary at Cadence's corporate offices located at 2655 Seely Avenue, Building 5, San Jose, California 95134 no later than the close of business on February 2, 2020 and no earlier than the close of business on January 3, 2020, and must otherwise satisfy the requirements set forth in Cadence's Bylaws. However, if the date of the 2020 Annual Meeting of Cadence stockholders changes by more than 30 days from the first anniversary of the 2019 Annual Meeting, any such stockholder proposals or nominations must be submitted in writing to Cadence's Corporate Secretary no later than the close of business on the tenth day following the first public announcement of the date of the meeting.

If the stockholder does not also comply with the requirements of Rule 14a-4 under the Exchange Act, Cadence may exercise discretionary voting authority under proxies it solicits to vote in accordance with its best judgment on any such stockholder proposal or nomination submitted by a stockholder.

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CORPORATE GOVERNANCE

LETTER FROM THE CHAIRMAN OF THE BOARD

Dear Cadence stockholders:

My fellow members of the board of directors join me in thanking you for your investment in Cadence. I welcome this opportunity to communicate with you about several of the board's priorities during the year. We see our role as representing your interests. In that regard, we provide oversight of Cadence in a manner that helps the company execute its business strategy and engage in prudent risk management in the dynamic, fast-moving environment in which it operates.

Business Strategy and Risk Management

The board discusses Cadence's business strategy and risk throughout the year. In 2018, Cadence focused on innovating and launching new products, including the industry's first silicon-proven, long-reach 112G SerDes IP in 7 nanometers. The company constantly reviews its strategy in light of technology trends such as artificial intelligence, cloud/data centers and 5G. Cadence continued to return significant value to stockholders as its System Design Enablement strategy provided a roadmap to deliver excellent operating results.

Ongoing Board and Management Succession Planning

Succession planning at the board and senior management levels are key priorities.

We discussed board refreshment at several meetings this past year. We are focused on ensuring that the board continues to be comprised of individuals with relevant expertise, integrity, experience, skills, judgment and diversity of background, and has the benefit of fresh perspectives that newer directors can bring.

We devote significant attention to management succession planning and talent development. We invite senior managers into the boardroom to help us understand their strengths and facilitate our plans for succession.

Focus on Corporate Governance Structures and Practices

Since Cadence joined the S&P 500 in late 2017, we have reviewed the company's corporate governance in light of common practices at S&P 500 companies and alignment with Cadence's needs. We have made appropriate adjustments and we are pleased that the company's structures and practices are generally aligned with the best practices at S&P 500 companies and its peers.

As you will note, at this year's annual meeting we are asking you to approve amendments to Cadence's Certificate of Incorporation to eliminate supermajority voting requirements and replace them with a majority of outstanding stock voting standard. This elimination of supermajority voting requirements will bring Cadence's practices more in line with common practice at S&P 500 companies and its peers.

Stockholder Engagement and Outreach

We have a robust stockholder outreach and engagement program whereby we communicate with key stockholders to better understand their viewpoints about Cadence's strategy and governance practices and policies. Topics we have discussed with stockholders since the 2018 annual meeting include Cadence's board composition and refreshment, culture and diversity of background, and executive compensation. Stockholders also have the opportunity to communicate their views at Cadence's annual meeting or by writing to us at the address provided in the section of this proxy statement entitled "Communication with Directors."

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We encourage you to read this proxy statement (including the board's recommendations) and vote your shares, irrespective of whether you plan to attend the annual meeting in person. Your vote is important to us.

Thank you for your continued support of Cadence.

Sincerely,

John B. Shoven, Ph.D.

Chairman of the Board

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CORPORATE GOVERNANCE HIGHLIGHTS

Board:

Independent director serving as Chair of the Board

Annual CEO and senior leadership succession review

Majority independent directors – seven of the nine directors
are independent Robust Code of Business Conduct

Robust insider trading and related party transactions

Board’s Audit Committee, Compensation Committee and
Corporate Governance and Nominating Committee
comprised entirely of independent directors

Committee authority to retain independent advisors

Annual election of directors by majority votes cast in an
uncontested election

Stock Ownership Guidelines – each non-employee director
required to hold shares of Cadence common stock with a
value equal to at least \$320,000 within five years of
initial appointment or election to the Board

No classified Board structure

Regular executive sessions of the Board with independent
directors

Direct Board engagement with stockholders and
commitment by the Board and management to continued
engagement with stockholders

Annual Board and committee evaluations – overseen by
Corporate Governance and Nominating Committee

Board continuing education – new director orientation and
continuing education on critical topics and issues

Stockholder Rights:

No poison pill (stockholders’ rights plan)

Compensation:

Annual Say-on-Pay stockholder vote

Action by written consent

Clawback Policy

Proxy access

Prohibition of hedging Cadence securities

Stock Ownership Guidelines each executive officer required to hold shares of Cadence common stock with a value equal to at least (i) three times annual base salary for the CEO and (ii) the annual base salary for all other executive officers, in each case within five years of appointment

CORPORATE GOVERNANCE PRACTICES

Cadence is governed by the Board and the committees of the Board, which meet throughout the year. Cadence and its Board are committed to sound corporate governance, which helps Cadence compete more effectively, sustain its success and build long-term stockholder value. The Board and management regularly review and evaluate Cadence's corporate governance practices. Cadence's corporate governance documents, including the charters of the Audit Committee, the Compensation Committee, the Corporate Governance and Nominating Committee, the Finance Committee and the Strategy Committee, the Code of Business Conduct, the Related Party Transaction Policies and Procedures and the Board's Corporate Governance Guidelines, are available on the corporate governance page of Cadence's 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.

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Corporate Governance Guidelines

The Board has adopted Corporate Governance Guidelines, which cover various topics relating to the Board and its activities, including the selection and composition of the Board, Board leadership, compensation of directors, responsibilities of directors, Board access to senior management and outside advisors, meeting procedures, Board and committee responsibilities and other matters. The Corporate Governance and Nominating Committee annually reviews the Corporate Governance Guidelines, which may be amended by the Board at any time, and were most recently amended in February 2019.

Code of Business Conduct

Cadence has adopted a Code of Business Conduct to provide standards for ethical conduct in dealing with customers, suppliers, agents, government officials and others. The Code of Business Conduct applies to Cadence's directors, officers and employees (and those of its subsidiaries), including Cadence's Chief Executive Officer and Chief Financial Officer. The Code of Business Conduct also applies to certain independent contractors and consultants who work at Cadence's facilities or at Cadence's direction. Compliance with the Code of Business Conduct is a condition to continued service or employment with Cadence. The Code of Business Conduct covers topics including integrity, confidentiality of assets and information, conflicts of interest, compliance with federal and state securities laws, employment practices, payment practices and compliance with competition, anti-corruption and other laws and regulations.

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. 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 for Cadence's directors and executive officers to further align the interests of the directors and executive officers with the interests of stockholders and to reinforce Cadence's commitment to sound corporate governance. Each non-employee member of the Board is required to hold shares of Cadence common stock with a value equal to at least \$320,000 within five years of the date of his or her initial appointment or election to the Board. Cadence's CEO is required to hold shares of Cadence common stock with a value equal to three times his or her annual base salary within five years of the date of his or her appointment, and Cadence's other executive officers are required to hold shares of Cadence common stock with a value equal to his or her annual base salary within five years of the date of his or her appointment.

As of the Record Date, all directors and executive officers met the stock ownership guidelines applicable to them.

Anti-Hedging Policy

Cadence's Securities Trading Policy restricts certain transactions in Cadence securities and prohibits Cadence's directors, executive officers and all other Cadence employees (and their respective family and household members) from hedging their ownership of Cadence securities (regardless of whether such securities were granted as compensation or are otherwise held, directly or indirectly, by such employee or director), including by purchasing financial instruments such as prepaid variable forward contracts, equity swaps, collars and exchange funds, or trading

in publicly traded options, puts, calls or other derivative instruments related to Cadence securities.

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BOARD OF DIRECTORS

BOARD MEMBERSHIP

The Board currently consists of nine members: Mark W. Adams, Susan L. Bostrom, James D. Plummer, Alberto Sangiovanni-Vincentelli, John B. Shoven, Roger S. Siboni, Young K. Sohn, Lip-Bu Tan and Mary Agnes Wilderotter.

DIRECTOR INDEPENDENCE

The Board determines director independence in accordance with the Corporate Governance Guidelines, which require that at least a majority of the Board be independent directors within the meaning of the listing standards of the Nasdaq Stock Market. To be independent under the Nasdaq listing standards, a director must not have a 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 determining each director's independence, the Board considers all relevant facts and circumstances in conjunction with the guidelines provided by the Nasdaq listing standards.

CURRENT INDEPENDENT DIRECTORS

Among the current members of the Board, the Board has determined that Mses. Bostrom and Wilderotter, Drs. Plummer, Sangiovanni-Vincentelli and Shoven, and Messrs. Adams and Siboni are independent directors within the meaning of the Nasdaq listing standards. Mr. Tan, the CEO of Cadence, and Mr. Sohn, the Corporate President and Chief Strategy Officer of Samsung Electronics, a customer of Cadence, are not deemed independent.

BOARD LEADERSHIP

Mr. Tan serves as CEO, and Dr. Shoven, an independent director, serves as Chair of the Board. The Board believes that at this time, Cadence and its stockholders are best served by this leadership structure because it is valuable to have a strong independent leader, separate from the CEO, assisting the Board in fulfilling its role of overseeing management and Cadence's risk management practices. While the Corporate Governance Guidelines permit the roles of the Chair and the CEO to be filled by the same or different individuals, a lead independent director would be required if the roles were to be combined. This provides the Board with flexibility to determine whether the two roles should be combined in the future based on the Board's assessment of Cadence's needs and leadership from time to time.

PROCESS FOR SELECTING DIRECTOR NOMINEES AND CANDIDATES

The Corporate Governance and Nominating Committee evaluates and recommends director candidates for nomination by the full Board. The Corporate Governance and Nominating Committee regularly discusses and annually reviews as a committee and with the Board the appropriate skills and characteristics required of directors (such as integrity, experience, judgment, diversity of background, independence, ability to commit sufficient time and attention to Board activities, understanding of Cadence's products, technologies and strategy, and the specific skills set forth under Director Qualifications, Skills and Experience below in Proposal 1) in the context of the current composition of the Board and its committees.

STOCKHOLDER RECOMMENDATIONS OF DIRECTOR CANDIDATES

Stockholders who wish 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 materials

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required by Cadence's Bylaws as described under "Information About the Annual Meeting" above and any other material the stockholder considers necessary or appropriate. Only candidates recommended in accordance with these procedures are eligible to serve as directors. The Corporate Governance and Nominating Committee will evaluate any such candidates in the same manner as it evaluates candidates recommended from other sources.

DIRECTOR ATTENDANCE

During the fiscal year ended December 29, 2018, the Board held seven meetings, in addition to taking actions by unanimous written consent in lieu of a meeting. Each director attended at least 75% of the meetings of the Board and the committees on which he or she served that were held during the period for which he or she was a director or committee member during fiscal 2018. The Corporate Governance Guidelines encourage directors to attend the annual meeting of stockholders, and all of Cadence's then-serving directors attended the 2018 annual meeting of Cadence stockholders.

INDEPENDENT DIRECTOR MEETINGS

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

BOARD EVALUATIONS

The Board is committed to reviewing its performance through an annual evaluation process. Through the evaluations, the Board assesses its processes, meetings, planning and overall effectiveness. The directors provide feedback on the Board and its committees through questionnaires and interviews with an independent third party. The independent third party reviews the results and feedback provided by the directors and follows up with the directors regarding their evaluations. At a Board meeting each year, the independent third party, with the Chair of the Board and the Chair of the Corporate Governance and Nominating Committee, presents the findings to the Board. Any findings that require additional consideration are addressed at subsequent Board and committee meetings.

BOARD SUCCESSION PLANNING

Board succession planning is a regular topic for discussion at Board meetings. In October 2018, the Board formed a subcommittee of the Corporate Governance and Nominating Committee to assist the Board to further develop its approach to Board succession planning, with a focus on ensuring that the Board has the expertise, integrity, experience, skills, judgment and diversity of background needed to govern Cadence now and in the future.

CEO AND MANAGEMENT SUCCESSION PLANNING

The Board is actively engaged and involved in the succession planning of Cadence's management. The Compensation Committee regularly discusses and annually reports to the Board with respect to CEO succession planning, including policies for CEO selection and succession in the event of incapacitation, emergency situations, operational needs, retirement or removal of the CEO and evaluations of and development plans for any potential successors to the CEO. In addition, the Compensation Committee, in consultation with the CEO, regularly discusses and annually reviews senior leadership succession planning and reports to the Board with respect to Cadence's management development program and succession planning.

Table of Contents**BOARD RISK OVERSIGHT**

The Board exercises its risk oversight function through the Board as a whole and through certain of its committees. The Board and the relevant committees seek to understand and oversee the most critical risks facing Cadence. The Board does not view risk in isolation, but considers risk as part of its regular consideration of business decisions and business strategy. The Board as a whole has the ultimate responsibility for the oversight of risk management but has delegated the oversight of certain risks to the Audit Committee, Compensation Committee and Corporate Governance and Nominating Committee set forth in the table below.

Committee	Primary Areas of Risk Oversight
Audit Committee	Cadence's financial condition, financial statements, financial reporting process, accounting, internal control and cybersecurity matters
Compensation Committee	Cadence's overall compensation and senior leadership succession planning practices, policies and programs
Corporate Governance and Nominating Committee	Cadence's corporate governance, the composition, structure and evaluation of, and succession planning for, the Board and its committees, and review and approval of related party policy and transactions

The Board and the relevant committees review with Cadence's management the risk management practices for which they have oversight responsibility. Since overseeing risk is an ongoing process and inherent in Cadence's strategic decisions, the Board and the relevant committees also discuss risk throughout the year in relation to specific proposed actions.

STOCKHOLDER ENGAGEMENT

The Board is committed to active engagement with Cadence stockholders. In addition to Cadence management's regular engagement with Cadence stockholders throughout 2018, the Chair of the Board, the General Counsel and the Treasurer, on behalf of the Board, met with a number of Cadence stockholders to obtain feedback on key topics, including corporate governance and executive compensation. The Board and Cadence management intend to continue to engage with Cadence stockholders in 2019.

COMMUNICATION WITH DIRECTORS

Stockholders interested in communicating directly with the Board may do so by sending a letter to the following address:

Cadence Design Systems, Inc.

Board of Directors

c/o the Office of the Corporate Secretary

2655 Seely Avenue, Building 5

San Jose, California 95134

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 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 will be advised of any communication withheld for legal or other considerations as soon as practicable.

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COMMITTEES OF THE BOARD

The Board currently has the following committees: Audit Committee, Compensation Committee, Corporate Governance and Nominating Committee, Finance Committee and Strategy Committee. Each of these committees has a written charter that is approved by the Board and available on the corporate governance page of Cadence’s website at www.cadence.com.

The current members and chairs of the committees are identified in the following table:

Director	Audit	Compensation	Corporate Governance and Nominating	Finance	Strategy
Mark W. Adams					
Susan L. Bostrom					
James D. Plummer					
Alberto Sangiovanni-Vincentelli					
John B. Shoven					
Roger S. Siboni					
Young K. Sohn					
Lip-Bu Tan					
Mary Agnes Wilderotter					

Committee Chair Member
Audit Committee

The Board has determined that all three members of the Audit Committee are independent as defined by the Nasdaq listing standards applicable to audit committee members and Rule 10A-3 of the Exchange Act. The Board has also determined that Dr. Shoven and Mr. Siboni are audit committee financial experts as defined in rules promulgated by the SEC.

The Audit Committee charter was last amended in February 2019 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;

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 all relationships or services between Cadence and the independent registered public accounting firm that may impact the objectivity and independence of the independent registered public accounting firm;

Reviewing audit procedures, the results of the annual audit and any audit problems, difficulties or disagreements;

Reviewing Cadence's annual and quarterly financial statements, annual reports on Form 10-K and quarterly reports on Form 10-Q, and recommending to the Board whether the financial statements should be included in Cadence's annual report on Form 10-K;

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Reviewing and discussing the adequacy and effectiveness of Cadence's internal controls, disclosure controls and procedures and practices with respect to risk assessment and risk management as it relates to financial reporting and cybersecurity; and

Establishing and overseeing procedures for the receipt, retention and treatment of complaints received by Cadence regarding accounting, internal controls, auditing or violations of federal securities law matters.

The Audit Committee held six meetings during fiscal 2018. See Report of the Audit Committee below for more information.

Compensation Committee

The Compensation Committee is currently comprised of four non-employee, independent directors of Cadence, each of whom the Board has determined to be independent as defined by the Nasdaq listing standards applicable to compensation committee members and satisfies the applicable independence standards under the Exchange Act for compensation committee service. All Compensation Committee members are also outside directors within the meaning of Rule 16b-3 of the Exchange Act.

Although the Compensation Committee may delegate its authority over certain matters 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 compensation in fiscal 2018 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 Cadence's Senior Executive 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, and the Compensation Committee did not delegate any authority with respect to the consideration and determination of director compensation in fiscal 2018.

The Compensation Committee charter was last amended in February 2019. The duties and responsibilities of the Compensation Committee include:

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

Overseeing the evaluation of Cadence's management;

Reviewing at least annually Cadence's senior leadership succession planning in consultation with the CEO;

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

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Overseeing Cadence's overall compensation practices, policies and programs, assessing whether Cadence's compensation structure establishes appropriate incentives for management and employees, assessing the risks associated with such practices, policies and programs, and assessing the results of Cadence's most recent advisory vote on executive compensation;

Reviewing annually an assessment of any potential conflicts of interest raised by the work of compensation consultants, whether retained by the Compensation Committee or management, who are involved in determining or recommending executive or Board compensation; and

Assessing the independence of any consultants or other outside advisors that the Compensation Committee selects or receives advice from, and being directly responsible for the appointment, compensation and oversight of the work of any consultants and advisors retained by the Compensation Committee.

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The Compensation Committee believes that having an outside evaluation of executive officer salary, bonus and equity compensation is a valuable tool for the Compensation Committee and Cadence stockholders. In fiscal 2018, the Compensation Committee retained the services of a compensation consultant, Semler Brossy Consulting Group, LLC, for advice regarding the compensation of Cadence's executive officers. 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 certain other employees and providing information on typical industry practices concerning employment, equity practices, severance and change in control agreements. Semler Brossy has not been engaged to perform any other work for Cadence. Pursuant to the factors set forth in Item 407 of Regulation S-K promulgated by the SEC and the Nasdaq listing standards, the Compensation Committee has reviewed the independence of Semler Brossy and conducted a conflicts of interest assessment, and has concluded that Semler Brossy is independent and Semler Brossy's work for the Compensation Committee has not raised any conflicts of interest.

In determining the compensation of Cadence's executive officers, including Cadence's named executive officers (as defined below in Compensation Discussion and Analysis), the Compensation Committee considers 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 equity incentive compensation of executive officers other than himself based upon an assessment of certain factors described 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, by the Compensation Committee in its sole discretion. See Compensation Discussion and Analysis below for more information.

The Compensation Committee, in consultation with Semler Brossy, reviews Cadence's compensation practices, policies and programs for all employees, including the named executive officers, to assess the risks associated with such practices, policies and programs. The risk-mitigating factors considered by the Compensation Committee include the following:

The use of different types of compensation that provide a balance of short-term and long-term incentives with fixed and variable components;

Cadence's Securities Trading Policy, which restricts certain transactions in Cadence's securities, prohibits hedging by members of the Board and all employees and requires executive officers and members of the Board to obtain permission from the General Counsel before trading any shares of Cadence common stock during periods when the trading window is open, except those transactions expressly permitted in such policy;

Cadence's Clawback Policy, which, in the event of a restatement of Cadence's reported financial results, allows Cadence to seek to recover or cancel performance-based bonuses and equity awards made to executive officers to the extent that performance goals would not have been met under such restated financial results;

Caps on bonus awards to limit windfalls; and

The consideration of ethical behavior, which is integral in assessing the performance of all executive officers, including the named executive officers.

The Compensation Committee held three meetings during fiscal 2018.

Corporate Governance and Nominating Committee

The Board has determined that all seven 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 last amended in February 2019. The duties and responsibilities of the Corporate Governance and Nominating Committee include:

Determining the Board's criteria for selecting new directors and recommending to the Board director nominees for election at the next annual or special meeting of stockholders at which directors are to be elected or to fill any vacancies or newly created directorships that may occur between such meetings;

Considering potential director candidates recommended by Cadence's management and stockholders in the same manner as nominees identified by the Corporate Governance and Nominating Committee; provided that, with respect to those candidates recommended by stockholders, such stockholders have provided Cadence with a notice that sets forth information as to such stockholders and director candidates in accordance with Cadence's Bylaws;

Overseeing the annual evaluation of the Board and its committees, and considering the results of the annual evaluation;

Retaining, terminating and approving the fees and retention terms with respect to any search firm employed to identify director candidates;

Evaluating, at least annually, each director's performance and effectiveness and determining whether the Board desires his or her continued service;

Overseeing the administration of the 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 party transactions and recommending to the full Board for approval policies and procedures for the review, approval and ratification of such transactions and amendments to such policies and procedures;

Reviewing whether it is appropriate for a director to continue to serve as a member of the Board if his or her business responsibilities or personal circumstances change and making a recommendation to the Board as to any action to be taken with respect to such change;

Determining whether to approve any director (a) accepting employment, directorship, consulting engagement, advisory board position or any other affiliation with another company or (b) starting a new business which may be, or give the appearance of, a conflict of interest; and

Overseeing the orientation program that Cadence provides to new directors and making recommendations regarding director continuing education programs.

The Corporate Governance and Nominating Committee regularly discusses and annually reviews the appropriate size of the Board, whether any vacancies on the Board are expected due to retirement or otherwise, and the need for particular expertise on the Board. If vacancies on the Board are anticipated or otherwise arise, the committee considers potential director candidates, which may come to the committee's attention through a variety of channels, including current directors, officers, professional search firms, stockholders or other persons. The Corporate Governance and Nominating 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 held three meetings during fiscal 2018.

Finance Committee

The Finance Committee, on behalf of the Board, evaluates and approves financings, mergers, acquisitions, divestitures and other financial commitments of Cadence to third parties and has the authority to approve those that involve amounts up to \$60 million. The Finance Committee charter was last amended in February 2019.

The Finance Committee held four meetings during fiscal 2018.

Table of Contents**Strategy Committee**

The Strategy Committee, on behalf of the Board, assists and advises in the strategic planning process and in the development of long-term strategic plans for Cadence. The Strategy Committee charter was last amended in February 2019.

The Strategy Committee held three meetings during fiscal 2018.

COMPONENTS OF DIRECTOR COMPENSATION

The Compensation Committee, with input from its independent compensation consultant, annually reviews and recommends to the Board the compensation program for directors who are not employees of Cadence. Directors who are Cadence employees, such as Mr. Tan, do not receive additional compensation for their service on the Board. In setting non-employee director compensation, the Compensation Committee considers the competitiveness of Cadence's director compensation from a number of different perspectives, including average total compensation, aggregate compensation for the full Board and individual director compensation as differentiated by committee membership and leadership roles. The Compensation Committee also reviews Cadence's director compensation relative to Cadence's Peer Group, which is also used to determine market levels for executive compensation (see Compensation Discussion and Analysis below for more information).

The following table sets forth the components of the non-employee directors' compensation for fiscal 2018:

Compensation Component	Director Compensation
Annual Retainer ⁽¹⁾	\$80,000
Chair Fees	\$80,000 for Chair of the Board ⁽²⁾
	\$40,000 for Chair of the Audit Committee
	\$30,000 for Chair of the Compensation Committee and Chair of the Finance Committee
	\$20,000 for Chair of the Corporate Governance and Nominating Committee and Chair of the Strategy Committee

Meeting Attendance Fees⁽³⁾

\$2,000 per meeting attended in person

\$1,000 per meeting attended via telephone

Incentive Stock Award⁽⁴⁾

Incentive stock award with a grant date fair value of \$190,000 for each non-employee director (\$220,000 for a non-employee director serving as Chair of the Board) that fully vests on the first anniversary of the date of grant

New Director Equity Award (one-time grant)

Each non-employee director who joins the Board may be granted incentive stock awards, stock options and restricted stock units (RSUs) under the Directors Plan, the amounts of which are determined at the sole discretion of the Board or its designated committee

Stock Ownership Guidelines⁽⁵⁾

Each non-employee director is required to hold shares of Cadence common stock with a value equal to at least \$320,000 within five years of initial appointment or election to the Board

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- (1) Directors may elect to defer cash compensation payable to them under Cadence's deferred compensation plan. These deferred compensation amounts are credited to participant accounts, with values indexed to the performance of mutual funds or money market accounts selected by the participant. Cadence does not match contributions made under Cadence's deferred compensation plan.
- (2) A non-employee director serving as Chair of the Board is also eligible to receive fees for service as the Chair of any of the Board committees.
- (3) No additional compensation is paid when the Board or a committee acts by unanimous written consent in lieu of a meeting. Non-employee directors are also eligible for reimbursement of expenses they incur in connection with attending Board meetings in accordance with Cadence's expense reimbursement policy.
- (4) On February 7, 2018, each then-serving non-employee director (other than the Chair of the Board) was granted an incentive stock award of 4,926 shares of Cadence common stock under Cadence's 1995 Directors Stock Incentive Plan (the Directors Plan) (which award had a grant date fair value of approximately \$190,000) and Dr. Shoven, the non-employee director serving as Chair of the Board, was granted an incentive stock award of 5,703 shares of Cadence common stock under the Directors Plan (which award had a grant date fair value of approximately \$220,000).
- (5) As of the Record Date, all directors met the stock ownership guidelines applicable to them. Separately, Cadence's Securities Trading Policy restricts certain transactions in Cadence securities and prohibits directors from hedging their ownership of Cadence securities, including by purchasing financial instruments such as prepaid variable forward contracts, equity swaps, collars and exchange funds, or trading in publicly traded options, puts, calls or other derivative instruments related to Cadence securities.

In addition, a medical and prescription benefits coverage reimbursement plan is available to active non-employee directors who were directors on December 31, 2014 (the Eligible Directors), eligible retired directors who retired from the Board on or prior to December 31, 2014 (the Eligible Retired Directors) and their respective dependents (the Medical Reimbursement Plan). Directors first elected or appointed to the Board after December 31, 2014 are not eligible to participate in the Medical Reimbursement Plan. Eligible Directors and their dependents may obtain coverage under the Medical Reimbursement Plan during their term of service on the Board. Eligible Retired Directors, Eligible Directors and their dependents may continue coverage under the Medical Reimbursement Plan starting immediately after the director's termination of service for a continuous term not to exceed such director's term of service on the Board.

In accordance with the Medical Reimbursement Plan, a director's eligibility for participation in the Medical Reimbursement Plan immediately ceases if the plan administrator determines that he or she has violated the Code of Business Conduct or is engaged as an employee, consultant, director or advisor of, or significant investor in, a competitor of Cadence. Under the Medical Reimbursement Plan, Cadence reimburses 100% of the premiums for participants and their dependents up to a maximum of \$20,000 for expenses incurred per calendar year, which maximum amount may be adjusted for future changes in medical costs. Benefits under the Medical Reimbursement Plan are fully taxable to the participants and Cadence does not gross up reimbursement payments to cover any such taxes.

Table of Contents**DIRECTOR COMPENSATION FOR FISCAL 2018**

The following table sets forth the compensation earned by Cadence's non-employee directors for their service on the Board in fiscal 2018:

Name	Fees Earned or Paid in Cash (\$)	Stock Awards (\$) ⁽¹⁾⁽²⁾	Option Awards (\$) ⁽³⁾	All Other Compensation (\$) ⁽⁴⁾	Total (\$)
Mark W. Adams	\$109,000	\$189,996	\$	\$	\$298,996
Susan L. Bostrom	128,000	189,996		20,000	337,996
James D. Plummer	130,000	189,996			319,996
Alberto Sangiovanni-Vincentelli	103,000	189,996		10,186	303,182
John B. Shoven	233,000	219,965		10,460	463,425
Roger S. Siboni	155,000	189,996		10,903	355,899
Young K. Sohn	129,000	189,996			318,996
Mary Agnes Wilderotter	102,000	189,996			291,996

⁽¹⁾ In accordance with SEC rules, the amount shown reflects the grant date fair value of stock awards granted during fiscal 2018 calculated pursuant to Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 718 (*Compensation - Stock Compensation*) (FASB ASC 718). The assumptions used to calculate the valuation of the stock awards for fiscal 2018 are set forth in Note 10 to the Notes to Consolidated Financial Statements in Cadence's Annual Report on Form 10-K for the fiscal year ended December 29, 2018. The

amount shown is based on the price of Cadence common stock on the date the award was granted and does not reflect any fluctuations in the price of Cadence common stock subsequent to the grant date. The amount shown therefore does not reflect the financial benefit that the holder of the award will actually realize upon the vesting of the award.

- (2) As of December 29, 2018, the number of unvested shares of restricted stock held by each non-employee director was as follows:

Mark W. Adams	4,926	John B. Shoven	5,703
Susan L. Bostrom	4,926	Roger S. Siboni	4,926
James D. Plummer	4,926	Young K. Sohn	4,926
Alberto Sangiovanni-Vincentelli	4,926	Mary Agnes Wilderotter	4,926

- (3) No option awards were granted to the non-employee directors during fiscal 2018. As of December 29, 2018, the number of outstanding stock options held by each non-employee director was as follows:

Mark W. Adams	0	John B. Shoven	190,000
Susan L. Bostrom	0	Roger S. Siboni	50,000
James D. Plummer	57,500	Young K. Sohn	20,000
Alberto Sangiovanni-Vincentelli	70,000	Mary Agnes Wilderotter	0

- (4) The amounts listed in the All Other Compensation column above for Ms. Bostrom, Drs. Sangiovanni-Vincentelli and Shoven and Mr. Siboni consist of reimbursements pursuant to the Medical Reimbursement Plan described above.

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MATTERS TO BE CONSIDERED AT THE ANNUAL MEETING

PROPOSAL 1: ELECTION OF DIRECTORS

The Corporate Governance and Nominating Committee has recommended, and the Board has nominated, the nine nominees named below for election to the Board. Each director elected at the Annual Meeting will hold office until the 2020 Annual Meeting of Cadence stockholders and until his or her successor is elected and qualified, or until the director's earlier resignation, removal or death.

Each nominee listed below is currently a Cadence director, and all of the nominees have previously been elected by Cadence stockholders.

DIRECTOR QUALIFICATIONS AND DIVERSITY OF BACKGROUND

The Board believes that the Board, as a whole, should possess a combination of skills, professional experience and diversity of backgrounds necessary to oversee Cadence's business. In addition, the Board believes that there are certain attributes that every director should possess, as reflected in the Board's membership criteria. Accordingly, the Board and the Corporate Governance and Nominating Committee consider the qualifications of directors and director candidates individually and in the broader context of the Board's overall composition and Cadence's current and future needs.

The Corporate Governance and Nominating Committee is responsible for developing the Board membership criteria and recommending them to the Board for approval. The criteria, which are set forth in the Corporate Governance Guidelines, include a prospective nominee's integrity, experience, judgment, diversity of background, independence, financial literacy, ability to commit sufficient time and attention to Board activities, skills such as an understanding of electronic design, semiconductor and electronics systems technologies, international background and other relevant characteristics. The Corporate Governance and Nominating Committee considers all of these criteria in the context of the needs of the Board from time to time. In addition, the Corporate Governance and Nominating Committee regularly discusses and annually reviews as a committee and with the Board the appropriate experience, skills and characteristics required of directors in the context of the current composition of the Board and its committees. In seeking diversity of background, the Corporate Governance and Nominating Committee seeks a variety of occupational and personal backgrounds on the Board in order to obtain a range of viewpoints and perspectives. This annual assessment enables the Board to update the skills and experience it seeks in the Board as a whole, and in individual directors, as Cadence's needs evolve and change over time, and also enables the Board to assess the effectiveness of its policy to seek a diversity of background on the Board. In identifying director candidates from time to time, the Corporate Governance and Nominating Committee and the Board may establish specific skills and experience that it believes Cadence should seek in order to have an effective board of directors.

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DIRECTOR QUALIFICATIONS, SKILLS AND EXPERIENCE

The Corporate Governance and Nominating Committee has determined that it is important for an effective Board to have directors with a balance of the qualifications, skills and experience set forth in the table below.

Summary of Qualifications, Skills and Experience

Compensation / Talent Management

Experience in compensation, organizational management, leadership, talent development and identifying, recruiting and motivating top talent

Corporate Governance

Experience in providing oversight and support of the goals of the Board and management and experience in protection of stockholder interests

Cybersecurity

Understanding cybersecurity risks in enterprise operations

Financial Expertise

Experience in evaluating financial statements and capital structures and overseeing financial reporting and internal controls

Government / Regulatory / Public Policy

Experience in or working with governmental and regulatory organizations

International

Experience with global businesses, operations, strategy and customer bases

Marketing

Experience in marketing and branding of products and services and identifying and developing new markets for products and services

Operations

Current or former executives with significant operating experience, who are able to provide insight into developing, implementing and assessing an enterprise's operating plan, business and strategy

Risk Management

Experience in overseeing risk management and understanding risks faced by enterprise operations

Experience in overseeing risk management and understanding risks faced by enterprise operations	1,104.4	
Tanks and delivery facilities	77.1	74.6
Other	10.5	10.3
Assets under construction	38.8	46.3
Total	1,334.2	1,240.8
Less accumulated depreciation	375.9	374.0
Net property, plant and equipment	\$ 958.3	\$ 866.8

9. Fair Value Measurements

Fair Values Recurring

There were no assets accounted for at fair value on a recurring basis at September 30, 2012 and December 31, 2011.

The following is a reconciliation of the net beginning and ending balances recorded for net assets classified as Level 3 in the fair value hierarchy during the three and nine months ended September 30, 2011. There were no assets classified as Level 3 in the fair value hierarchy during the three and nine months ended September 30, 2012.

<i>(In millions)</i>	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2011
Beginning balance	\$	\$ 51.1
Purchases of PFD Preferred Stock ^(a)		260.6
Redemptions of PFD Preferred Stock ^(a)		(311.7)
Ending balance	\$	\$

^(a) For information on PFD Preferred Stock, see Note 4. The fair value of our PFD Preferred Stock investment was measured using an income approach since the securities were not publicly traded; therefore, they were classified as Level 3 in the fair value hierarchy.

Fair Values Reported

Our current assets and liabilities include financial instruments, the most significant of which were our loans receivable from a related party. The fair value of the loans receivable from MPCIF was measured using an income approach where the recorded value of \$220.4 million on December 31, 2011 approximated market value due to the loan to MPCIF being due upon demand. This measurement is classified as Level 3.

Our other primary financial instruments are trade receivables and payables. We believe the carrying values of our remaining current assets and liabilities approximate fair value. Our fair value assessment incorporates a variety of considerations, including (1) the short-term duration of the instruments (e.g., less than 1 percent of our trade receivables and payables are outstanding for greater than 90 days), (2) MPC's investment-grade credit rating and (3) our historical incurrence of and expected future insignificance of bad debt expense, which includes an evaluation of counterparty credit risk.

10. Supplemental Cash Flow Information

<i>(In millions)</i>	Nine Months Ended September 30,	
	2012	2011
Net cash provided by operating activities included:		
Interest paid (net of amounts capitalized)	\$	\$ 0.2
Income taxes paid through MPC	0.2	0.2

The combined statements of cash flows exclude changes to the combined balance sheets that did not affect cash. The following is a reconciliation of additions to property, plant and equipment to total capital expenditures:

<i>(In millions)</i>	Nine Months Ended September 30,	
	2012	2011
Additions to property, plant and equipment	\$ 109.2	\$ 22.2
Plus: Increase in capital accruals	9.0	2.7
Retirement expense	2.6	0.8
Total capital expenditures	\$ 120.8	\$ 25.7

The following is a reconciliation of contributions from (distributions to) MPC:

<i>(In millions)</i>	Nine Months Ended September 30,	
	2012	2011
Contributions from (distributions to) MPC per combined statements of cash flows	\$ (165.5)	\$ 17.7
Non-cash distributions to MPC		(0.5)
Contributions from (distributions to) MPC per combined statements of net investment	\$ (165.5)	\$ 17.2

11. Commitments and Contingencies

We are the subject of, or a party to, a number of pending or threatened legal actions, contingencies and commitments involving a variety of matters, including laws and regulations relating to the environment. Some of these matters are discussed below. For matters for which we have not recorded an accrued liability, we are unable to estimate a range of possible losses for the reasons discussed in more detail below. However, the ultimate resolution of some of these contingencies could, individually or in the aggregate, be material.

Environmental matters We are subject to federal, state and local laws and regulations relating to the environment. These laws generally provide for control of pollutants released into the environment and require responsible parties to undertake remediation of hazardous waste disposal sites. Penalties may be imposed for noncompliance.

At September 30, 2012 and December 31, 2011, accrued liabilities for remediation totaled \$2.0 million and \$2.3 million, respectively. At September 30, 2012 and December 31, 2011, it is reasonably possible that an estimated loss existed of up to \$0.5 million in excess of the amount accrued for remediation. However, it is not presently possible to estimate the ultimate amount of all remediation costs that might be incurred or the penalties, if any, that may be imposed.

Administrative Proceedings On August 24, 2010, the U.S. Department of Transportation Pipeline and Hazardous Materials Safety Administration (PHMSA) issued a Notice of Probable Violation, Proposed Civil Penalty and Proposed Compliance Order to MPL related to an incident at St. James, Louisiana on March 10, 2009. In May 2012, we and PHMSA entered into a Consent Agreement and Order under which we agreed to pay a civil penalty of \$842,650 and to undertake and complete (over a 42-month period) a Supplemental Safety and Environmental Project with a minimum cost of \$305,000. The civil penalty of \$842,650 was paid in May 2012.

Guarantees We have entered into guarantees with maximum potential undiscounted payments totaling \$1.6 million as of September 30, 2012, which consist of leases of vehicles extending through 2017 that contain general lease indemnities and guaranteed residual values.

Over the years, we have sold various assets in the normal course of our business. Certain of the related agreements contain performance and general guarantees, including guarantees regarding inaccuracies in representations, warranties, covenants and agreements, and environmental and general indemnifications that require us to perform upon the occurrence of a triggering event or condition. These guarantees and

indemnifications are part of the normal course of selling assets. We are typically not able to calculate the maximum potential amount of future payments that could be made under such contractual provisions because of the variability inherent in the guarantees and indemnities. Most often, the nature of the guarantees and indemnities is such that there is no appropriate method for quantifying the exposure because the underlying triggering event has little or no past experience upon which a reasonable prediction of the outcome can be based.

Contractual commitments At September 30, 2012, our contractual commitments to acquire property, plant and equipment totaled \$11.4 million. Our contractual commitments at September 30, 2012 were primarily related to an upgrade project on our Patoka, Illinois to Catlettsburg, Kentucky crude oil pipeline system.

12. Subsequent Events

On October 30, 2012, prior to the Offering and as a result of the termination of the agreements with MPCIF described in Note 4, MPL and ORPL paid dividends that totaled \$98.8 million to MPC.

On October 31, 2012, in conjunction with the Offering, MPL distributed to MPC its minority undivided joint interests in two crude oil pipeline systems. The revenues, expenses, assets and liabilities attributable to these two pipeline systems were included in the Predecessor combined financial statements for periods prior to the Offering.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Unless the context otherwise requires, references in this report to the Predecessor, we, our, us, or like terms, when used in a historical context (periods prior to October 31, 2012), refer to MPLX LP Predecessor, our predecessor for accounting purposes. References in this report to MPLX LP, the Partnership, we, our, us, or like terms used in the present tense or prospectively (starting October 31, 2012), refer to MPLX LP and its subsidiaries, including MPLX Pipe Line Holdings LP (Pipe Line Holdings), a wholly owned subsidiary of MPLX LP. References to MPC refer collectively to Marathon Petroleum Corporation and its subsidiaries, other than the Partnership. Prior to June 30, 2011, MPC was a wholly owned subsidiary of Marathon Oil Corporation. Marathon Oil Corporation and all its subsidiaries and equity method investments not spun off with MPC are referred to as Marathon Oil.

Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with the unaudited combined financial statements and accompanying footnotes included under Item 1. Financial Statements and in conjunction with the audited combined financial statements and accompanying footnotes in our prospectus related to the initial public offering of MPLX LP dated October 25, 2012, as filed with the SEC on October 29, 2012 (the Prospectus).

Management's Discussion and Analysis of Financial Condition and Results of Operations includes various forward-looking statements concerning trends or events potentially affecting our business. You can identify our forward-looking statements by words such as anticipate, believe, estimate, expect, forecast, goal, intend, plan, predict, project, seek, target, could, may, should or would convey the uncertainty of future events or outcomes. In accordance with safe harbor provisions of the Private Securities Litigation Reform Act of 1995, these statements are accompanied by cautionary language identifying important factors, though not necessarily all such factors, which could cause future outcomes to differ materially from those set forth in forward-looking statements. For additional risk factors affecting our business, see Risk Factors in the Prospectus.

The Initial Public Offering

On October 26, 2012, the Partnership's common units began trading on the New York Stock Exchange under the ticker symbol MPLX. On October 31, 2012, MPLX LP closed its initial public offering of 19,895,000 common units at a price to the public of \$22.00 per unit, which included a 2,595,000 common unit over-allotment option that was exercised in full by the underwriters.

In exchange for MPC's contribution of assets and liabilities to the Partnership, MPC received:

17,056,515 common units and 36,951,515 subordinated units, representing an aggregate 71.6 percent limited partner interest in us;

all of our incentive distribution rights;

1,508,225 general partner units, representing a 2.0 percent general partner interest; and

an aggregate cash distribution of \$202.7 million.

The Partnership received net proceeds of \$404.3 million from the sale of 19,895,000 common units, after deducting underwriting discounts and commissions, structuring fees and estimated offering expenses (the Offering Costs) of approximately \$31.0 million and financing costs of \$2.4 million. The Partnership retained \$191.6 million of these net proceeds to prefund certain estimated expansion capital expenditures and \$10.0 million for working capital purposes before the cash distribution to MPC.

Commercial Agreements. At the closing of the Offering, the Partnership entered into long-term, fee-based transportation services agreements with MPC. On October 1, 2012, MPL entered into long-term, fee-based storage services agreements with MPC. Under these agreements, we will provide transportation and storage services to MPC, and MPC will commit to provide us with minimum quarterly throughput and storage volumes of crude oil and products and minimum storage volumes of butane. We believe the terms and conditions under these agreements, as well as our initial agreements with MPC described below, are generally no less favorable to either party than those that could have been negotiated with unaffiliated parties with respect to similar services.

These commercial agreements with MPC include:

three separate 10-year transportation services agreements and one five-year transportation services agreement under which MPC pays the Partnership fees for transporting crude oil on each of our crude oil pipeline systems;

four separate 10-year transportation services agreements under which MPC pays the Partnership fees for transporting products on each of our product pipeline systems;

a five-year transportation services agreement under which MPC pays the Partnership fees for handling crude oil and products at our Wood River, Illinois barge dock;

a 10-year storage services agreement under which MPC pays the Partnership fees for providing storage services at our Neal, West Virginia butane cavern; and

four separate three-year storage services agreements under which MPC pays the Partnership fees for providing storage services at our tank farms.

All of our transportation services agreements for our crude oil and product pipeline systems (other than our Wood River, Illinois to Patoka, Illinois crude system) will automatically renew for up to two additional five-year terms unless terminated by either party. The transportation services agreements for our Wood River to Patoka crude system and our barge dock will automatically renew for up to four additional two-year terms unless terminated by either party. Our butane cavern storage services agreement will not automatically renew. Our storage services agreements for our tank farms automatically renew for additional one-year terms unless terminated by either party.

Under our transportation services agreements, if MPC fails to transport its minimum throughput volumes during any quarter, then MPC will pay us a deficiency payment equal to the volume of the deficiency multiplied by the tariff rate then in effect. If the minimum capacity of the pipeline falls below the level of MPC's commitment at any time or if capacity on the pipeline is required to be allocated among shippers because volume nominations exceed available capacity, depending on the cause of the reduction in capacity, MPC's commitment may be reduced or MPC will receive a credit for its minimum volume commitment for that period. In addition to MPC's minimum volume commitment, MPC will also be responsible for any loading, handling, transfer and other charges with respect to volumes we transport for MPC. If we agree to make any capital expenditures at MPC's request, MPC will reimburse us for, or we will have the right in certain circumstances, to file for an increased tariff rate to recover the actual cost of such capital expenditures. Our transportation services agreements include provisions that permit MPC to suspend, reduce or terminate its obligations under the applicable agreement if certain events occur. These events include MPC deciding to permanently or indefinitely suspend refining operation at one or more of its refineries for at least twelve consecutive months and certain force majeure events that would prevent us or MPC from performing required services under the applicable agreement.

Under the storage services agreements, we are obligated to make available to MPC on a firm basis the available storage capacity at our tank farms and butane cavern, and MPC will pay us a per-barrel fee for such storage capacity, regardless of whether MPC fully utilizes the available capacity. Beginning on January 1, 2014, our storage services agreements will be adjusted based on changes in the producer price index.

Operating Agreements. At the closing of the Offering, the Partnership entered into an operating services agreement with MPC in which we will operate various pipeline systems owned by MPC. In addition, under existing operating services agreements that MPL had previously entered into with MPC and third parties, MPL will continue to operate various pipeline systems owned by MPC and third parties. Under these operating services agreements, the Partnership receives an operating fee for operating the assets and is reimbursed for all direct and indirect costs associated with operating the assets. Most of these agreements are indexed for inflation. These agreements range from one to five years in length and automatically renew.

Management Services Agreements. Prior to the closing of the Offering, MPL entered into two management services agreements with MPC under which we provide certain management services to MPC with respect to certain of MPC's retained pipeline assets. We receive fixed annual fees under the agreements for providing the required management services, initially in the amount of \$0.7 million and thereafter adjusted annually for inflation and based on changes in the scope of management services provided.

Omnibus Agreement. Upon the closing of the Offering, the Partnership entered into an omnibus agreement with MPC that addresses our payment of a fixed annual fee to MPC for the provision of executive management services by certain executive officers of our general partner and our reimbursement of MPC for the provision of certain general and administrative services to us, as well as MPC's indemnification of us for certain matters, including environmental, title and tax matters.

Employee Services Agreements. Effective October 1, 2012, the Partnership entered into two employee services agreements with MPC under which we have agreed to reimburse MPC for the provision of certain operational and management services to us in support of our pipelines, barge dock, butane cavern and tank farms.

Partnership Overview

We are a fee-based, growth-oriented limited partnership formed by MPC to own, operate, develop and acquire crude oil, refined product and other hydrocarbon-based product pipelines and other midstream assets. Subsequent to the Offering, our primary assets consist of:

a 51.0% general partner interest in Pipe Line Holdings, a newly-formed entity that owns a 100.0% interest in MPL and ORPL, which in turn collectively own:

a network of pipeline systems that includes approximately 962 miles of common carrier crude oil pipelines and approximately 1,819 miles of common carrier product pipelines extending across nine states. This network includes approximately 153 miles of common carrier crude oil and product pipelines that we operate under long-term leases with third parties;

a barge dock located on the Mississippi River near Wood River, Illinois with approximately 80 thousand barrels per day (mbpd) of crude oil and product throughput capacity; and

crude oil and product tank farms located in Patoka, Wood River and Martinsville, Illinois and Lebanon, Indiana.

a 100.0% interest in a butane cavern located in Neal, West Virginia with approximately 1.0 million barrels of storage capacity that serves MPC's Catlettsburg, Kentucky refinery.

As the sole general partner of Pipe Line Holdings, we control all aspects of management of Pipe Line Holdings, including its cash distribution policy. The only outstanding partnership interests in Pipe Line Holdings are our 51.0% general partner interest and the 49.0% limited partner interest retained by MPC. We believe our network of petroleum pipelines is one of the largest in the United States, based on total annual volumes delivered. Our assets are integral to the success of MPC's operations.

How We Generate Revenue

We generate revenue primarily by charging tariffs for transporting crude oil, refined products and other hydrocarbon-based products through our pipelines and at our barge dock and fees for storing crude oil and products at our storage facilities. We are also the operator of additional crude oil and product pipelines owned by MPC and its affiliates and third parties for which we are paid operating fees. We do not take ownership of the crude oil or products that we transport and store for our customers, and we do not engage in the trading of any commodities.

MPC historically has been, and will continue to be for the foreseeable future, the source of the substantial majority of our revenues. On October 31, 2012, concurrent with the Offering, we entered into new long-term, fee-based transportation services agreements with MPC with minimum volume commitments. MPC historically has shipped volumes in excess of its minimum throughput commitment for most of our crude oil and product pipeline systems and we expect those excess shipments to continue. In conjunction with the Offering, on October 1, 2012, we entered into new long-term, fee-based storage services agreements with MPC. We believe these transportation and storage services agreements will promote stable and predictable cash flows.

In the future, we plan to seek increased third-party volumes on our crude oil and product pipelines. We believe that the strategic location of our assets and their ability to access attractively priced crude oil and to supply products to various markets may create opportunities to capture incremental third-party business and facilitate our growth. The substantial majority of our revenues are generated under our transportation and storage services agreements with, and tariffs and fees paid by, MPC. Unless we are successful in attracting third-party customers, our ability to increase volumes will be dependent on MPC and its future growth.

We also plan to pursue acquisitions of complementary assets from MPC as well as third parties. We believe MPC will offer us the opportunity to purchase additional midstream assets that it owns, including additional interests in Pipe Line Holdings. We may pursue acquisitions in coordination with MPC. Our third-party acquisition strategy includes midstream assets both within our existing geographic footprint and in new

areas.

How We Evaluate Our Operations

Our management uses a variety of financial and operating metrics to analyze our performance. These metrics are significant factors in assessing our operating results and profitability and include: (i) throughput volumes; (ii) income from operations; (iii) Adjusted EBITDA; and (iv) distributable cash flow.

Throughput Volumes. The amount of revenue we generate primarily depends on the volumes of crude oil, refined products and other hydrocarbon-based products that we transport for our customers. The volumes transported on our pipelines are primarily affected by the supply of and demand for crude oil and products in the markets served directly or indirectly by our assets. Although MPC has committed to minimum throughput volumes under the transportation services agreements described above, our results of operations will be impacted by our ability to:

utilize the remaining uncommitted capacity on, or add additional capacity to, our pipeline systems;

increase throughput volumes on our pipeline systems by making outlet connections to existing or new third-party pipelines or other facilities, primarily driven by the anticipated supply of and demand for crude oil and products;

identify and execute organic expansion projects, and capture incremental MPC and third-party volumes; and

increase throughput volumes via acquisitions.

Income from Operations. Income from operations represents our total revenue and other income less our total costs and expenses. Our management seeks to maximize our income from operations by maximizing revenue and managing our expenses. We generate revenue primarily by charging tariffs for transporting crude oil, refined products and other hydrocarbon-based products through our pipelines and at our barge dock and fees for storing crude oil and products at our storage facilities. The Federal Energy Regulatory Commission (FERC) regulates the tariffs we can charge on our common carrier pipelines; however, as volumes of crude oil, refined products and other hydrocarbon-based products handled through our pipelines fluctuate, so does our revenue.

Total costs and expenses include cost of revenues, purchases from related parties, depreciation, general and administrative expenses and other taxes. These expenses are primarily comprised of labor expenses, repairs and maintenance expenses, fuel and power costs, lease costs, property and payroll taxes and administrative expenses. These expenses generally remain relatively stable across broad ranges of throughput volumes but can fluctuate from period to period depending on the mix of activities performed during that period and the timing of these expenses. We intend to manage our maintenance expenditures on our pipelines and storage assets by scheduling maintenance over time to avoid significant variability in our maintenance expenditures and minimize their impact on our cash flow.

Adjusted EBITDA and Distributable Cash Flow. We define Adjusted EBITDA as net income before depreciation, provision (benefit) for income taxes and net interest and other financial income (costs). Although we have not quantified distributable cash flow for our Predecessor, the Partnership intends to use distributable cash flow, which we define as Adjusted EBITDA less net cash interest paid, income taxes paid and maintenance capital expenditures, to analyze our performance. Distributable cash flow and Adjusted EBITDA are not presentations made in accordance with U.S. GAAP.

Adjusted EBITDA and distributable cash flow are non-GAAP supplemental financial measures that management and external users of our combined financial statements, such as industry analysts, investors, lenders and rating agencies, may use to assess:

our operating performance compared to other publicly traded partnerships in our industry, without regard to historical cost basis or, in the case of Adjusted EBITDA, financing methods;

the ability of our assets to generate sufficient cash flow to make distributions to our unitholders;

our ability to incur and service debt and fund capital expenditures; and

the viability of acquisitions and other capital expenditure projects and the returns on investment of various investment opportunities. We believe that the presentation of Adjusted EBITDA provides useful information to investors in assessing our financial condition and results of operations. The U.S. GAAP measures most directly comparable to Adjusted EBITDA are net income and net cash provided by operating activities. Adjusted EBITDA should not be considered as an alternative to U.S. GAAP net income or net cash provided by operating activities. Adjusted EBITDA has important limitations as an analytical tool because it excludes some but not all items that affect net income and net cash provided by operating activities or any other measure of financial performance or liquidity presented in accordance with U.S. GAAP. Adjusted EBITDA should not be considered in isolation or as a substitute for analysis of our results as reported under U.S. GAAP. Additionally, because Adjusted EBITDA may be defined differently by other companies in our industry, our definition of Adjusted EBITDA may not be comparable to similarly titled measures of other companies, thereby diminishing their utility.

Factors Affecting the Comparability of Our Financial Results

Our future results of operations subsequent to the Offering may not be comparable to our Predecessor's historical results of operations for the reasons described below:

Joint Interest Assets. Our Predecessor's results of operations historically included revenues and expenses relating to our Predecessor's minority undivided joint interests in the Capline and Maumee crude oil pipeline systems. We refer to our Predecessor's minority undivided joint interests in these pipeline systems as the joint interest assets. While third parties operate the joint interest assets, our Predecessor published tariffs and collected revenues from shippers that utilized capacity attributable to our Predecessor's undivided interest portion of the joint interest assets, and paid the operator of the joint interest assets for our Predecessor's proportionate share of all costs and expenses related to the operation and maintenance of the joint interest assets. MPC did not contribute the joint interest assets to us in connection with the Offering and our results of operations subsequent to the Offering do not include the joint interest assets.

Contribution of 51.0% General Partner Interest in Pipe Line Holdings. Our Predecessor's results of operations historically included 100.0% of the revenues and expenses relating to the assets that were contributed to us, as well as the joint interest assets that were not contributed to us. At the closing of the Offering, MPC contributed to us a 51.0% general partner interest in Pipe Line Holdings. Following the closing of the Offering, we will consolidate the results of operations of Pipe Line Holdings and then record a 49.0% noncontrolling interest deduction for the limited partner interest in Pipe Line Holdings retained by MPC.

Neal Butane Cavern. Our Predecessor's results of operations historically have included no revenues or expenses associated with our Neal butane cavern. The cavern was placed into service on August 1, 2012, and was contributed to the Partnership at the closing of the Offering.

Revenues. Following the closing of the Offering, most of our revenues are generated from the transportation and storage services agreements that we entered into with MPC in conjunction with the Offering and under which MPC pays us fees for transporting crude oil and products on our pipeline systems, for handling crude oil and products at our barge dock and for providing storage services at our tank farms and butane cavern. These contracts contain minimum volume commitments. Historically, our Predecessor did not have long-term transportation and storage arrangements with MPC. In addition, we expect to generate revenue generally not previously recognized by our Predecessor related to the following:

- general tariff increases that will go into effect on a majority of our pipeline systems on July 1, 2013 in accordance with the FERC's indexing methodology;

- a tariff increase that went into effect in October 2012 on our Patoka, Illinois to Catlettsburg, Kentucky crude oil pipeline related to upgrades on that pipeline; and

- a tariff increase that went into effect in October 2012 on our Robinson, Illinois to Mt. Vernon, Indiana product pipeline to more accurately reflect our costs of operating the pipeline.

General and Administrative Expenses. Our Predecessor's general and administrative expenses included direct charges for the management and operation of our assets and certain overhead and shared services expenses allocated by MPC, as well as certain overhead expenses allocated by Marathon Oil through June 30, 2011, for general and administrative services, such as information technology, engineering, legal, human resources and other financial and administrative services. These expenses were charged or allocated to our Predecessor based on the nature of the expenses and our Predecessor's proportionate share of utilization, capital employed, wages or headcount. Following the closing of the Offering, MPC continues to charge us a combination of direct and allocated charges for administrative and operational services, which are projected to be higher than those charged to our Predecessor due to MPC's provision of additional services, and a fixed annual fee for the provision of executive management services by certain executive officers of our general partner. We also expect to incur an additional \$3.4 million of incremental annual general and administrative expenses as a result of being a separate publicly traded partnership.

Financing. There are differences in the way we finance our operations as compared to the way our Predecessor financed its operations. Historically, our Predecessor's operations were financed as part of MPC's integrated operations and our Predecessor did not record any separate costs associated with financing its operations. Additionally, our Predecessor largely relied on internally generated cash flows and capital contributions from MPC to satisfy its capital expenditure requirements. Following the closing of the Offering, we intend to make cash distributions to our unitholders at an initial distribution rate of \$0.2625 per unit per quarter (\$1.05 per unit on an annualized basis). Based on the terms of our cash distribution policy, we

expect that we will distribute to our unitholders and our general partner most of the excess cash generated by our operations. We also retained \$10.0 million from the net proceeds of the Offering for general partnership purposes and contributed \$191.6 million from the net proceeds of the Offering to Pipe Line Holdings, which Pipe Line Holdings retained on behalf of us and MPC in order to fund our respective pro rata share of the estimated total cost of certain expansion capital expenditures over the two years following the Offering, based on our and MPC's ownership interest in Pipe Line Holdings. We expect to fund any other future expansion capital expenditures primarily from external sources, including borrowings under our \$500.0 million revolving credit facility and potential future issuances of equity and debt securities.

Results of Operations

The table below and descriptions that follow represent those of our Predecessor. Our future results of operations subsequent to the Offering may not be comparable to our Predecessor's historical results of operations for the reasons discussed above under -Factors Affecting the Comparability of Our Financial Results. See the Prospectus for unaudited pro forma combined financial data.

<i>(Dollars in millions)</i>	Three Months Ended September 30,			Nine Months Ended September 30,		
	2012	2011	Variance	2012	2011	Variance
Revenues and other income:						
Sales and other operating revenues	\$ 19.6	\$ 15.9	\$ 3.7	\$ 53.5	\$ 44.5	\$ 9.0
Sales to related parties	96.6	89.1	7.5	265.8	253.4	12.4
Loss on sale of assets				(0.3)		(0.3)
Other income	1.7	1.9	(0.2)	5.0	2.3	2.7
Other income - related parties	3.2	2.4	0.8	9.6	6.3	3.3
Total revenues and other income	121.1	109.3	11.8	333.6	306.5	27.1
Costs and expenses:						
Cost of revenues (excludes items below)	53.5	39.7	13.8	136.0	114.3	21.7
Purchases from related parties	7.7	7.4	0.3	21.3	21.5	(0.2)
Depreciation	9.4	9.7	(0.3)	27.8	27.4	0.4
General and administrative expenses	11.2	10.7	0.5	38.1	27.1	11.0
Other taxes	3.0	2.7	0.3	9.7	8.8	0.9
Total costs and expenses	84.8	70.2	14.6	232.9	199.1	33.8
Income from operations	36.3	39.1	(2.8)	100.7	107.4	(6.7)
Related party interest and other financial income	0.5	0.2	0.3	1.3	2.1	(0.8)
Interest and other financial income (costs)					(0.2)	0.2
Income before income taxes	36.8	39.3	(2.5)	102.0	109.3	(7.3)
Provision (benefit) for income taxes	(0.1)		(0.1)	0.1		0.1
Net income	\$ 36.9	\$ 39.3	\$ (2.4)	\$ 101.9	\$ 109.3	\$ (7.4)
Adjusted EBITDA	\$ 45.7	\$ 48.8	\$ (3.1)	\$ 128.5	\$ 134.8	\$ (6.3)
Pipeline throughput (mbpd):						
Crude oil pipelines	1,136	1,205	(69)	1,150	1,200	(50)
Product pipelines	1,044	1,128	(84)	972	1,039	(67)
Total	2,180	2,333	(153)	2,122	2,239	(117)
Crude oil pipelines (light equivalent barrels)	1,171	1,288	(117)	1,186	1,270	(84)
Average tariff rates (\$ per barrel): ^(a)						
Crude oil pipelines	\$ 0.58	\$ 0.49	\$ 0.09	\$ 0.55	\$ 0.48	\$ 0.07
Product pipelines	0.53	0.44	0.09	0.50	0.45	0.05
Total pipelines	0.56	0.47	0.09	0.53	0.47	0.06

^(a) Average tariff rates calculated using pipeline transportation revenues divided by physical pipeline throughput barrels.

The following tables present a reconciliation of Adjusted EBITDA to net income and net cash provided by operating activities, the most directly comparable GAAP financial measures, for each of the periods indicated.

<i>(In millions)</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Reconciliation of Net Income to Adjusted EBITDA:				
Net Income	\$ 36.9	\$ 39.3	\$ 101.9	\$ 109.3
Plus:				
Depreciation	9.4	9.7	27.8	27.4
Provision (benefit) for income taxes	(0.1)		0.1	
Less:				
Net interest and other financial income	0.5	0.2	1.3	1.9
Adjusted EBITDA	\$ 45.7	\$ 48.8	\$ 128.5	\$ 134.8

<i>(In millions)</i>	Nine Months Ended September 30,	
	2012	2011
Reconciliation of Net Cash Provided by Operating Activities to Adjusted EBITDA:		
Net cash provided by operating activities	\$ 121.8	\$ 141.6
Less:		
Increase (decrease) in working capital	(2.9)	3.9
Net interest and other financial income	1.3	1.9
All other, net	(5.2)	1.2
Plus:		
Net loss on sale of assets	(0.3)	
Income taxes paid	0.2	0.2
Adjusted EBITDA	\$ 128.5	\$ 134.8

Combined net income was \$2.4 million and \$7.4 million lower in the third quarter and first nine months of 2012 compared to the third quarter and first nine months of 2011, primarily due to increases in cost of revenues and general and administrative expenses that exceeded increases in total revenues and other income.

Total sales and other operating revenues, including sales to related parties, increased \$11.2 million in the third quarter of 2012 compared to the third quarter of 2011, primarily due to a \$7.5 million increase in sales to related parties. The increase in sales to related parties reflects a \$14.0 million increase due to higher average tariffs received on the volumes of crude oil and products shipped, primarily due to our Patoka to Catlettsburg and other crude oil systems, partially offset by a \$6.5 million decrease related to a 182 mbpd decrease in related party crude oil and product volumes shipped. Sales and other operating revenues increased \$3.7 million in the third quarter of 2012 compared to the third quarter of 2011, primarily due to a \$1.7 million increase related to higher average tariffs received on the volumes of products shipped and a \$1.3 million increase related to a 29 mbpd increase in third-party crude oil and products volumes shipped.

Total sales and other operating revenues, including sales to related parties, increased \$21.4 million in the first nine months of 2012 compared to the first nine months of 2011, due to a \$12.4 million increase in sales to related parties and a \$9.0 million increase in sales and other operating revenues. The increase in sales to related parties was primarily related to a \$35.2 million increase due to higher average tariffs received on the volumes of crude oil and products shipped, primarily due to our Patoka to Catlettsburg and other crude oil systems, partially offset by a \$22.7 million decrease related to a 152 mbpd decrease in related party crude oil and products volumes shipped. The decrease in volumes shipped was primarily related to the Capline crude system and the Garyville, Louisiana to Zachary, Louisiana products system. In response to changes in crude oil supply sourcing, we converted our Roxanna, Illinois to Patoka, Illinois pipeline to crude oil service and made improvements to our Wood River, Illinois barge dock, which partially offset a decrease in volumes shipped on the Capline crude system. The increase in sales and other operating revenues was primarily related to a \$5.2 million increase due to higher average tariffs received on the volumes of products shipped and a \$1.9 million increase related to a 15 mbpd increase in third-party crude oil volumes shipped.

Other income and other income related parties increased \$0.6 million in the third quarter and \$6.0 million in the first nine months of 2012 compared to the corresponding periods of 2011. The increase in the third quarter of 2012 was primarily due to an increase in fees received for operating MPC's private pipeline systems, partially offset by a decrease in operating fees received from Marathon Oil. The increase in the first nine months of 2012 was primarily due to higher operating fees received from MPC and Marathon Oil, which were increased to reflect arm's-length rates.

Cost of revenues increased \$13.8 million in the third quarter and \$21.7 million in the first nine months of 2012 compared to the corresponding periods of 2011. The increases were primarily due to higher outside services costs of \$10.9 million and \$13.3 million, respectively, primarily related to mechanical integrity work on our pipelines. The first nine months of 2012 also had unfavorable changes in measurement differences of \$4.1 million.

General and administrative expenses increased \$0.5 million in the third quarter and \$11.0 million in the first nine months of 2012 compared to the corresponding periods of 2011. The increases were primarily due to \$2.8 million and \$9.5 million of pension settlement expenses recorded in the third quarter and first nine months of 2012. The impact to the third quarter of 2012 was partially offset by lower employee compensation and benefit expenses. The first nine months of 2012 also had higher expense allocations from MPC resulting from MPC's increased costs associated with information technology, human resources and accounting.

Related party interest and other financial income decreased \$0.8 million in the first nine months of 2012 compared to the first nine months of 2011. We had an increase of \$1.1 million in interest income in the first nine months of 2012 from loans receivable from MPCIF compared to \$1.9 million of dividend income in the first nine months of 2011 from our investment in PFD Preferred Stock. See Note 4 to the unaudited combined financial statements for further discussion of our loans receivable from MPCIF and our investment in PFD Preferred Stock.

Liquidity and Capital Resources

Cash Flows

Our cash and cash equivalents balance was \$68.5 million at September 30, 2012 compared to \$0.1 million at December 31, 2011. The change in cash and cash equivalents was due to the factors discussed below. Net cash provided by (used in) operating activities, investing activities and financing activities for the nine months ended September 30, 2012 and 2011 were as follows:

<i>(In millions)</i>	Nine Months Ended September 30,	
	2012	2011
Net cash provided by (used in):		
Operating activities	\$ 121.8	\$ 141.6
Investing activities	112.6	(145.3)
Financing activities	(166.0)	17.2
Total	\$ 68.4	\$ 13.5

Net cash provided by operating activities decreased \$19.8 million in the first nine months of 2012 compared to the first nine months of 2011, primarily due to a \$7.4 million decrease in net income, a \$6.8 million unfavorable impact from changes in working capital and a \$5.6 million unfavorable impact from other operating activities. Cash used in changes in working capital of \$2.9 million in the first nine months of 2012 was primarily due to a \$6.3 million increase in receivables from related parties and a \$1.1 million increase in inventories, partially offset by a \$1.9 million decrease in current receivables, a \$1.8 million increase in payables to related parties and a \$1.7 million increase in payroll and benefits payable. Cash provided by changes in working capital of \$3.9 million in the first nine months of 2011 was primarily due to a \$3.1 million decrease in receivables from related parties.

Investing activities were a \$112.6 million source of cash in the first nine months of 2012 compared to a \$145.3 million use of cash the first nine months of 2011, primarily due to a \$395.9 million positive change in cash flows from loans to related parties, partially offset by an \$87.0 million increase in additions to property, plant and equipment and a \$51.1 million decrease in cash provided by investments in related party debt securities. Loans to related parties consisted of collections from MPCIF of \$221.7 million in the first nine months of 2012 compared to advances to MPCIF of \$174.2 million in the first nine months of 2011. Additions to property, plant and equipment of \$109.2 million in the first nine months of 2012 were primarily due to expansion capital expenditures, including the major upgrade project on our Patoka to Catlettsburg crude oil pipeline. Additions to property, plant and equipment of \$22.2 million in the first nine months of 2011 were primarily

expansion capital expenditures. Investments in related party debt securities consisted of net redemptions of PFD Preferred Stock of \$51.1 million in the first nine months of 2011 compared to no activity in the first nine months of 2012 since the agreement with PFD was terminated in June 2011.

Financing activities were a use of cash of \$166.0 million in the first nine months of 2012 compared to a source of cash of \$17.2 million in the first nine months of 2011, primarily due to distributions to and contributions from MPC, respectively.

Capital Resources

Historically, our sources of liquidity included cash generated from operations and funding from MPC. In 2011, we invested our excess cash in the preferred stock of MOC Portfolio Delaware, Inc. (PFD), a subsidiary of Marathon Oil. The agreement with PFD was terminated effective June 30, 2011. On June 21, 2011, we executed agreements with MPCIF, which allowed us, on a daily basis, to send our excess cash to MPCIF as an advance or request cash from MPCIF as a draw. Our net cash balance with MPCIF on the last day of each quarter was classified as loans receivable from related party. The agreements with MPCIF were terminated on September 28, 2012 in conjunction with the Offering. See Note 4 to the unaudited combined financial statements for additional information regarding PFD Preferred Stock and our agreements with MPCIF. Following the Offering, MPC invests our excess cash on our behalf directly with third-party institutions as part of the treasury services that it provides to us under our omnibus agreement.

In addition to our retention of \$10.0 million of the net proceeds from the Offering for general partnership purposes, including to fund our working capital needs, and Pipe Line Holdings' retention of \$191.6 million of the net proceeds from the Offering to fund certain expansion capital expenditures over the two-year period following the Offering, we expect our ongoing sources of liquidity to include cash generated from operations, borrowings under our revolving credit agreement and potential issuances of additional debt and equity securities. We believe that cash generated from these sources will be sufficient to meet our short-term working capital requirements and long-term capital expenditure requirements and to make quarterly cash distributions.

On September 14, 2012, MPLX Operations LLC (MPLX Operations), an affiliate of MPC that became a wholly owned subsidiary of the Partnership upon consummation of the Offering, as the borrower, and the Partnership, as the parent guarantor, entered into a five-year revolving credit agreement (Credit Agreement) with a syndicate of lenders. Upon the consummation of the Offering, MPLX has an initial borrowing loan capacity of \$500.0 million. MPLX Operations has the right to seek to increase the total amount available under the Credit Agreement to \$800.0 million, subject to certain conditions, including the consent of the lenders whose commitments would be increased. The Credit Agreement includes letter of credit issuing capacity of up to \$250.0 million and swingline loan capacity up to \$50.0 million. MPLX Operations may, subject to certain conditions, request that the term of the Credit Agreement be extended for up to two additional one-year periods. Each such extension would be subject to the approval of lenders holding greater than 50 percent of the commitments then outstanding, and the commitment of any lender that does not consent to an extension of the maturity date will be terminated on the then-effective maturity date.

The Credit Agreement contains representations and warranties, affirmative and negative covenants and events of default that we consider usual and customary for an agreement of that type. The financial covenant requires us to maintain a ratio of Consolidated Total Debt (as defined in the Credit Agreement) as of the end of each fiscal quarter to Consolidated EBITDA (as defined in the Credit Agreement) for the prior four fiscal quarters of not greater than 5.0 to 1.0 (or 5.5 to 1.0 during the six-month period following certain acquisitions).

Borrowings of revolving loans under the Credit Agreement bear interest, at either (i) the sum of the Adjusted LIBO Rate (as defined in the Credit Agreement), plus a margin ranging from 1.00 percent to 2.00 percent, or (ii) the sum of the Alternate Base Rate (as defined in the Credit Agreement), plus a margin ranging from zero percent to 1.00 percent. Prior to the Partnership receiving a rating from Standard & Poor's Rating Group or Moody's Investor Service, Inc. for its Index Debt (as defined in the Credit Agreement), the margin that is added to the applicable interest rate is based on the Partnership's ratio of Consolidated Total Debt as of the end of each fiscal quarter to Consolidated EBITDA for the prior four fiscal quarters. Once the Partnership receives a rating, the margin added to the applicable interest rate will be based on the Partnership's credit ratings. The Credit Agreement also provides for customary fees, including administrative agent fees, commitment fees ranging from 0.10 percent to 0.35 percent of the unused portion, depending on the Partnership's ratio of Consolidated Total Debt to Consolidated EBITDA for the prior four fiscal quarters prior to the rating date, or the Partnership's credit ratings subsequent to the rating date, fronting and issuance fees in respect to letters of credit and other fees.

Capital Requirements

Our operations are capital intensive, requiring investments to expand, upgrade or enhance existing operations and to meet environmental and operational regulations. Our capital requirements consist of maintenance capital expenditures and expansion capital expenditures. Examples of maintenance capital expenditures are those made to replace partially or fully depreciated assets, to maintain the existing operating capacity of our assets and to extend their useful lives, or other capital expenditures that are incurred in maintaining existing system volumes and related cash flows. In contrast, expansion capital expenditures are those incurred for acquisitions or capital improvements that we expect will increase our operating capacity or operating income over the long term. Examples of expansion capital expenditures include the acquisition of equipment or the construction, development or acquisition of additional pipeline or storage capacity.

Our capital expenditures for the nine months ended September 30, 2012 and 2011 are shown in the table below:

<i>(In millions)</i>	Nine Months	
	Ended September 30,	
	2012	2011
Maintenance	\$ 14.8	\$ 6.6
Expansion ⁽¹⁾	106.0	19.1
Total capital expenditures	120.8	25.7
Less: Increase in capital accruals	9.0	2.7
Retirement expenditures	2.6	0.8
 Additions to property, plant and equipment	 \$ 109.2	 \$ 22.2

⁽¹⁾ Includes 100% of Capline and Maumee crude oil pipeline systems capital expenditures.

Our current capital budget for 2012 is \$147.5 million, relating primarily to upgrades to replace or enhance our existing facilities and projects for new infrastructure. The budget includes \$27.3 million for maintenance capital expenditures, primarily related to valve replacement, safety and security expenditures and electrical system maintenance. Also included in the budget is \$120.2 million for expansion capital expenditures, including \$82.3 million related to a major upgrade project on our Patoka to Catlettsburg crude oil pipeline, \$14.3 million for the expansion of our Detroit, Michigan crude oil pipeline system associated with the heavy oil upgrading and expansion project at MPC's Detroit refinery, and \$11.2 million for the installation of crude oil blending equipment at our Patoka tank farm. We continuously evaluate our capital budget and make changes as conditions warrant.

We intend to pay a minimum quarterly distribution of \$0.2625 per unit per quarter, which equates to \$19.8 million per quarter, or \$79.2 million per year, based on the number of common, subordinated and general partner units outstanding immediately after completion of the Offering. Although our partnership agreement requires that we distribute all of our available cash each quarter, we do not have a legal obligation to distribute any particular amount per common unit.

Contractual Cash Obligations

As of September 30, 2012, our contractual cash obligations included capital and operating lease obligations and purchase obligations for services and to acquire property, plant and equipment. There were no material changes to these obligations outside the ordinary course of business since June 30, 2012.

On September 14, 2012, we entered into a five-year revolving credit agreement that became effective upon the closing of the Offering. This agreement includes commitment fees ranging from 0.10 percent to 0.35 percent of the unused portion of the \$500.0 million borrowing capacity, depending on the financial covenant ratio specified in the agreement or the Partnership's credit rating. Based on the commitment fee currently in place, if no funds are borrowed, our minimum annual commitment would be \$1.0 million.

At the closing of the Offering, we entered into an omnibus agreement with MPC that addresses our payment of a fixed annual fee to MPC for the provision of executive management services by certain executive officers of our general partner and our reimbursement of MPC for the provision of certain general and administrative services to us. The omnibus agreement will remain in full force and effect so long as MPC controls our general

partner. Under the omnibus agreement, we will pay to MPC in equal monthly installments an initial annual amount of approximately \$31.8 million for the provision of certain general and administrative services by MPC and its affiliates. The annual amount includes a fixed annual fee of approximately \$3.5 million for the provision of certain executive management services by certain officers of our general partner. We will also pay MPC additional amounts based on the costs actually incurred by MPC and its affiliates in providing other services, except for the portion of the amount attributable to engineering services, which will be based on the amounts actually incurred by MPC and its affiliates plus 6.0% of such costs. In addition, we are obligated to reimburse MPC for any out-of-pocket costs and expenses incurred by MPC on our behalf.

In conjunction with the Offering, we entered into two employee services agreements with MPC that address reimbursement of MPC for the provision of certain operational and management services to us in support of our pipelines, barge dock, butane cavern and tank farms. The employee services agreements have an initial term that extends through September 30, 2017. Under the first employee services agreement related to services provided in support of our Neal, West Virginia butane cavern, we will pay to MPC in equal monthly installments an initial annual amount of \$318,000. Under the second employee services agreement related to services provided in support of assets owned or operated by MPL, we will pay MPC a monthly fee that will reflect the total employee-based salary and wage costs (including accruals) incurred in providing the services during such month, including a monthly allocated portion of estimated employee benefit costs, bonus accrual, MPC stock-based compensation expense and employer payroll taxes, plus an additional \$125,000.

Off-Balance Sheet Arrangements

As of September 30, 2012, we have not entered into any transactions, agreements or other arrangements that would result in off-balance sheet liabilities.

Transactions with Related Parties

Following completion of the Offering on October 31, 2012, MPC held a 2.0 percent general partner interest and a 71.6 percent limited partner interest in MPLX LP. See Note 2 to the unaudited combined financial statements for further discussion of the Offering.

Excluding revenues attributable to volumes shipped by MPC under joint tariffs with third parties that are treated as third-party revenues for accounting purposes, MPC accounted for 82% and 84% of our total revenues and other income for the nine months ended September 30, 2012 and 2011, respectively. We provide crude oil and product pipeline transportation services based on regulated tariff rates and storage services based on contracted rates. MPC accounted for 25% and 22% of our total costs and expenses for the nine months ended September 30, 2012 and 2011, respectively. MPC and, with respect to periods prior to June 30, 2011, Marathon Oil performed certain services for us related to information technology, engineering, legal, human resources and other financial and administrative services. We believe that transactions with related parties, other than certain transactions with MPC related to the provision of administrative services, have been conducted under terms comparable to those with unrelated parties. See Notes 2 and 4 to the unaudited combined financial statements for further discussion of activity with related parties and MPC.

Environmental Matters and Compliance Costs

We have incurred and may continue to incur substantial capital, operating and maintenance, and remediation expenditures as a result of environmental laws and regulations. If these expenditures, as with all costs, are not ultimately reflected in the prices of our products and services, our operating results will be adversely affected. We believe that substantially all of our competitors must comply with similar environmental laws and regulations. However, the specific impact on each competitor may vary depending on a number of factors, including, but not limited to, the age and location of its operating facilities.

As of September 30, 2012, there have been no significant changes to our environmental matters and compliance costs disclosed in the Prospectus.

Critical Accounting Estimates

As of September 30, 2012, there have been no significant changes to our critical accounting estimates disclosed in the Prospectus.

Accounting Standards Not Yet Adopted

In December 2011, the Financial Accounting Standards Board issued an accounting standards update that requires disclosure of additional information related to recognized financial and derivative instruments that are offset or are not offset but are subject to an enforceable netting agreement. The purpose of the requirement is to help users evaluate the effect or potential effect of offsetting and related netting arrangements on an entity's financial position. The update is to be applied retrospectively and is effective for annual periods that begin on or after January 1, 2013 and interim periods within those annual periods. Adoption of this update will not have an impact on our combined results of operations, financial position or cash flows.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Market risk is the risk of loss arising from adverse changes in market rates and prices. As we do not take ownership of the crude oil or products that we transport and store for our customers, and we do not engage in the trading of any commodities, we have minimal direct exposure to risks associated with fluctuating commodity prices. In addition, our transportation and storage services agreements with MPC are indexed to inflation to mitigate our exposure to increases in the cost of supplies used in our business.

Debt that we incur under our revolving credit agreement will bear interest at a variable rate and will expose us to interest rate risk. Unless interest rates increase significantly in the future, our exposure to interest rate risk should be minimal. There have been no borrowings or letters of credit outstanding under our revolving credit agreement.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

An evaluation of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13(a)-15(e) and 15(d)-15(e) under the Securities Exchange Act of 1934, as amended) was carried out under the supervision and with the participation of management, including the chief executive officer and chief financial officer. Based upon that evaluation, the chief executive officer and chief financial officer concluded that the design and operation of these disclosure controls and procedures were effective as of September 30, 2012, the end of the period covered by this report.

Internal Control Over Financial Reporting and Changes in Internal Control Over Financial Reporting

The SEC, as required by Section 404 of the Sarbanes-Oxley Act, adopted rules that generally require every company that files reports with the SEC to include a management report on such company's internal control over financial reporting in its annual report. In addition, our independent registered public accounting firm must attest to our internal control over financial reporting. Our first Annual Report on Form 10-K will not include a report of management's assessment regarding internal control over financial reporting or an attestation report of our independent registered public accounting firm due to a transition period established by SEC rules applicable to new public companies. Management will be required to provide an assessment of effectiveness of our internal control over financial reporting as of December 31, 2013. We are not required to comply with the auditor attestation requirement of Section 404 of the Sarbanes-Oxley Act while we qualify as an emerging growth company as defined in the Jumpstart Our Business Startups Act of 2012.

During the quarter ended September 30, 2012, there were no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Part II Other Information

Item 1. Legal Proceedings

We are the subject of, or a party to, a number of pending or threatened legal proceedings involving a variety of matters, including matters relating to environmental laws and regulations.

Litigation

In 2003, the State of Illinois brought an action against the Premcor Refining Group, Inc. and Apex Refining Company asserting claims for environmental cleanup related to the refinery owned by these entities in the Hartford/Wood River, Illinois area. In 2006, Premcor and Apex filed a third-party complaint against numerous owners and operators of petroleum products facilities in the Hartford/Wood River, Illinois area, including MPL, asserting claims of contribution under the Illinois Contribution Act for environmental cleanup costs that may be imposed on Premcor and Apex by the State of Illinois. There are several third-party defendants in the litigation and MPL has asserted cross-claims in contribution against the various third-party defendants. This litigation is currently pending in the Third Judicial Circuit Court, Madison County, Illinois. While the ultimate outcome of these litigated matters remains uncertain, neither the likelihood of an unfavorable outcome nor the ultimate liability, if any, with respect to this matter can be determined at this time and we are unable to estimate a reasonably possible loss (or range of loss) for this litigation. Under our omnibus agreement, MPC will indemnify us for the full cost of any losses should MPL be deemed responsible for any damages in this lawsuit.

We are a party to a number of other lawsuits and other proceedings and cannot predict the outcome of every such matter with certainty. While it is possible that an adverse result in one or more of the lawsuits or proceedings in which we are a defendant could be material to us, based upon current information and our experience as a defendant in other matters, we believe that these lawsuits and proceedings, individually or in the aggregate, will not have a material adverse effect on our combined results of operations, financial position or cash flows.

Environmental Proceedings

We are involved in a number of environmental enforcement proceedings arising in the ordinary course of business. While the outcome and impact on us cannot be predicted with certainty, we believe the resolution of these environmental proceedings will not have a material adverse effect on our combined results of operations, financial position or cash flows.

Item 1A. Risk Factors

We are subject to various risks and uncertainties in the course of our business. The discussion of such risks and uncertainties may be found under **Risk Factors** in the Prospectus.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

On October 24, 2012, our Registration Statement on Form S-1 (SEC Registration No. 333-182500), as amended, that we filed with the SEC relating to the Offering became effective. UBS Securities LLC, Merrill Lynch, Pierce, Fenner & Smith Incorporated and Morgan Stanley & Co. LLC served as representatives of the several underwriters for the Offering. The closing date of the Offering was October 31, 2012, and the Partnership sold 19,895,000 common units to the public, which included a 2,595,000 common unit over-allotment option that was exercised in full by the underwriters on October 26, 2012. The Offering price to the public was \$22.00 per common unit, resulting in total gross proceeds of approximately \$437.7 million. The proceeds received and the use of proceeds from the Offering were as follows:

(in millions)

Proceeds received from sale of common units	\$ 437.7
Use of proceeds:	
Underwriting discounts and commissions	26.3
Structuring fees and estimated offering expenses	4.7
Revolving credit facility origination fees	2.4
Retained for working capital	10.0
Retained to prefund certain estimated expansion capital expenditures	191.6
Distributed to MPC	202.7
Total	\$ 437.7

Item 6. Exhibits

Exhibit Number	Exhibit Description	Incorporated by Reference				Filed Herewith	Furnished Herewith
		Form	Exhibit	Filing Date	SEC File No.		
3.1	Certificate of Limited Partnership of MPLX LP	S-1	3.1	7/2/2012	333-182500		
3.2	Amendment to the Certificate of Limited Partnership of MPLX LP	S-1/A	3.2	10/9/2012	333-182500		
3.3	First Amended and Restated Agreement of Limited Partnership of MPLX LP, dated October 31, 2012	8-K	3.1	11/6/2012	001-35714		
3.4	Amended and Restated Agreement of Limited Partnership of MPLX Pipe Line Holdings LP, dated October 31, 2012	8-K	3.2	11/6/2012	001-35714		
10.1	Revolving Credit Agreement, dated as of September 14, 2012, by and among MPLX Operations LLC, as borrower, MPLX LP, as parent guarantor, Citibank, N.A., as administrative agent, each of Citigroup Global Markets Inc., J.P. Morgan Securities LLC, Merrill Lynch, Pierce, Fenner & Smith Incorporated, Morgan Stanley Senior Funding, Inc., RBS Securities Inc. and UBS Securities LLC, as joint lead arrangers and joint bookrunners, JPMorgan Chase Bank, National Association, as syndication agent, each of Bank of America, N.A., Morgan Stanley Senior Funding, Inc., The Royal Bank of Scotland PLC and USB AG, Stamford Branch, as co-documentation agents, and the other commercial lending institutions parties thereto	S-1/A	10.1	10/9/2012	333-182500		
10.2	MPLX LP 2012 Incentive Compensation Plan	S-1/A	10.3	10/9/2012	333-182500		
10.3	MPLX GP LLC Non-Management Director Compensation Policy and Director Equity Award Terms	S-1/A	10.19	10/9/2012	333-182500		
10.4	Underwriting Agreement dated as of October 25, 2012 among MPLX LP, MPLX GP LLC, MPC Investment LLC, MPLX Logistics Holdings LLC and MPLX Operations LLC and UBS Securities LLC, Merrill Lynch, Pierce, Fenner & Smith Incorporated and Morgan Stanley & Co. LLC as representatives of the several underwrites named therein	8-K	1.1	10/31/2012	001-35714		
10.5	Contribution, Conveyance and Assumption Agreement, dated as of October 31, 2012, among MPLX LP, MPLX GP LLC, MPLX Operations LLC, MPC Investment LLC, MPLX Logistics Holdings LLC, Marathon Pipe Line LLC, MPL Investment LLC, MPLX Pipe Line Holdings LP and Ohio River Pipe Line LLC	8-K	10.1	11/6/2012	001-35714		
10.6	Omnibus Agreement, dated as of October 31, 2012, among Marathon Petroleum Corporation, Marathon Petroleum Company LP, MPL Investment LLC, MPLX Operations LLC, MPLX Terminal and Storage LLC, MPLX Pipe Line Holdings LP, Marathon Pipe Line LLC, Ohio River Pipe Line LLC, MPLX LP and	8-K	10.2	11/6/2012	001-35714		

MPLX GP LLC

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Exhibit Number	Exhibit Description	Incorporated by Reference				Filed Herewith	Furnished Herewith
		Form	Exhibit	Filing Date	SEC File No.		
10.7	Employee Services Agreement, dated effective as of October 1, 2012, by and among Marathon Petroleum Logistics Services LLC, MPLX GP LLC and Marathon Pipe Line LLC	S-1/A	10.6	10/9/2012	333-182500		
10.8	Employee Services Agreement, dated effective as of October 1, 2012, by and among Catlettsburg Refining LLC, MPLX GP LLC and MPLX Terminal and Storage LLC	S-1/A	10.7	10/9/2012	333-182500		
10.9	Management Services Agreement, dated effective as of September 1, 2012, by and between Hardin Street Holdings LLC and Marathon Pipe Line LLC	S-1/A	10.8	9/7/2012	333-182500		
10.10	Management Services Agreement, dated effective as of October 10, 2012, by and between MPL Louisiana Holdings LLC and Marathon Pipe Line LLC	S-1/A	10.9	10/18/2012	333-182500		
10.11	Amended and Restated Operating Agreement, dated as of October 31, 2012, between Marathon Petroleum Company LP and Marathon Pipe Line LLC	8-K	10.3	11/6/2012	001-35714		
10.12	Storage Services Agreement, dated effective as of October 1, 2012, by and between Marathon Pipe Line LLC and Marathon Petroleum Company LP (Patoka tank farm)	S-1/A	10.13	10/9/2012	333-182500		
10.13	Storage Services Agreement, dated effective as of October 1, 2012, by and between Marathon Pipe Line LLC and Marathon Petroleum Company LP (Martinsville tank farm)	S-1/A	10.14	10/9/2012	333-182500		
10.14	Storage Services Agreement, dated effective as of October 1, 2012, by and between Marathon Pipe Line LLC and Marathon Petroleum Company LP (Lebanon tank farm)	S-1/A	10.15	10/9/2012	333-182500		
10.15	Storage Services Agreement, dated effective as of October 1, 2012, by and between Marathon Pipe Line LLC and Marathon Petroleum Company LP (Wood River tank farm)	S-1/A	10.16	10/9/2012	333-182500		
10.16	Storage Services Agreement, dated effective as of October 1, 2012, by and between MPLX Terminal and Storage LLC and Marathon Petroleum Company LP (Neal butane cavern)	S-1/A	10.17	10/9/2012	333-182500		
10.17	Transportation Services Agreement (Patoka to Lima Crude System), dated as of October 31, 2012, between Marathon Petroleum Company LP and Marathon Pipe Line LLC	8-K	10.4	11/6/2012	001-35714		
10.18	Transportation Services Agreement (Catlettsburg and Robinson Crude System), dated as of October 31, 2012, between Marathon Petroleum Company LP and Marathon Pipe Line LLC	8-K	10.5	11/6/2012	001-35714		
10.19	Transportation Services Agreement (Detroit Crude System), dated as of October 31, 2012, between Marathon Petroleum Company LP and Marathon Pipe Line LLC	8-K	10.6	11/6/2012	001-35714		

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Exhibit Number	Exhibit Description	Incorporated by Reference				Filed Herewith	Furnished Herewith
		Form	Exhibit	Filing Date	SEC File No.		
10.20	Transportation Services Agreement (Wood River to Patoka Crude System), dated as of October 31, 2012, between Marathon Petroleum Company LP and Marathon Pipe Line LLC	8-K	10.7	11/6/2012	001-35714		
10.21	Transportation Services Agreement (Garyville Products System), dated as of October 31, 2012, between Marathon Petroleum Company LP and Marathon Pipe Line LLC	8-K	10.8	11/6/2012	001-35714		
10.22	Transportation Services Agreement (Texas City Products System), dated as of October 31, 2012, between Marathon Petroleum Company LP and Marathon Pipe Line LLC	8-K	10.9	11/6/2012	001-35714		
10.23	Transportation Services Agreement (ORPL Products System), dated as of October 31, 2012, between Marathon Petroleum Company LP and Ohio River Pipe Line LLC	8-K	10.10	11/6/2012	001-35714		
10.24	Transportation Services Agreement (Robinson Products System), dated as of October 31, 2012, between Marathon Petroleum Company LP and Marathon Pipe Line LLC	8-K	10.11	11/6/2012	001-35714		
10.25	Transportation Services Agreement (Wood River Barge Dock), dated as of October 31, 2012, between Marathon Petroleum Company LP and Marathon Pipe Line LLC	8-K	10.12	11/6/2012	001-35714		
31.1	Certification of Chief Executive Officer pursuant to Rule 13(a)-14 and 15(d)-14 under the Securities Exchange Act of 1934					X	
31.2	Certification of Chief Financial Officer pursuant to Rule 13(a)-14 and 15(d)-14 under the Securities Exchange Act of 1934					X	
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350						X
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350						X
101.INS+	XBRL Instance Document.						X
101.SCH+	XBRL Taxonomy Extension Schema.						X
101.PRE+	XBRL Taxonomy Extension Presentation Linkbase.						X
101.CAL+	XBRL Taxonomy Extension Calculation Linkbase.						X
101.DEF+	XBRL Taxonomy Extension Definition Linkbase.						X
101.LAB+	XBRL Taxonomy Extension Label Linkbase.						X

+ XBRL (eXtensible Business Reporting Language) information is furnished and not filed or a part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of section 18 of the Securities Exchange Act of 1934, and otherwise is not subject to liability under these sections.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: December 6, 2012

MPLX LP

By: MPLX GP LLC
Its general partner

By: /s/ Michael G. Braddock
Michael G. Braddock
Vice President and Controller