

ALTERA CORP  
Form 10-Q  
October 24, 2014  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

(Mark One)

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT  
OF 1934

For the quarterly period ended September 26, 2014

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT  
OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 0-16617

ALTERA CORPORATION  
(Exact name of registrant as specified in its charter)

|                                                                                                                                                                                                            |                                                          |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------|
| DELAWARE<br>(State or other jurisdiction of<br>incorporation or organization)<br>101 INNOVATION DRIVE<br>SAN JOSE, CALIFORNIA 95134<br>(Address of principal executive offices) (zip code)<br>408-544-7000 | 77-0016691<br>(I.R.S. Employer<br>Identification Number) |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------|

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

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Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act:

Large accelerated filer ☒      Accelerated filer ☐      Non-accelerated filer ☐      Smaller reporting company ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

Number of shares of common stock outstanding at October 10, 2014: 304,816,766

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## PART I FINANCIAL INFORMATION

## ITEM 1: Financial Statements

## ALTERA CORPORATION

## CONSOLIDATED BALANCE SHEETS

(Unaudited)

| (In thousands, except par value amount)                                                                                                                 | September 26,<br>2014 | December 31,<br>2013 |
|---------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------|----------------------|
| Assets                                                                                                                                                  |                       |                      |
| Current assets:                                                                                                                                         |                       |                      |
| Cash and cash equivalents                                                                                                                               | \$2,680,085           | \$2,869,158          |
| Short-term investments                                                                                                                                  | 134,059               | 141,487              |
| Total cash, cash equivalents, and short-term investments                                                                                                | 2,814,144             | 3,010,645            |
| Accounts receivable, net                                                                                                                                | 406,708               | 483,032              |
| Inventories                                                                                                                                             | 186,338               | 163,880              |
| Deferred income taxes — current                                                                                                                         | 54,402                | 63,228               |
| Deferred compensation plan — marketable securities                                                                                                      | 65,492                | 66,455               |
| Deferred compensation plan — restricted cash equivalents                                                                                                | 15,897                | 16,699               |
| Other current assets                                                                                                                                    | 41,260                | 48,901               |
| Total current assets                                                                                                                                    | 3,584,241             | 3,852,840            |
| Property and equipment, net                                                                                                                             | 197,213               | 204,142              |
| Long-term investments                                                                                                                                   | 1,744,830             | 1,695,066            |
| Deferred income taxes — non-current                                                                                                                     | 21,929                | 10,806               |
| Goodwill                                                                                                                                                | 74,341                | 73,968               |
| Acquisition-related intangible assets, net                                                                                                              | 74,756                | 82,150               |
| Other assets, net                                                                                                                                       | 83,720                | 76,676               |
| Total assets                                                                                                                                            | \$5,781,030           | \$5,995,648          |
| Liabilities and stockholders' equity                                                                                                                    |                       |                      |
| Current liabilities:                                                                                                                                    |                       |                      |
| Accounts payable                                                                                                                                        | \$47,910              | \$44,163             |
| Accrued liabilities                                                                                                                                     | 41,403                | 41,218               |
| Accrued compensation and related liabilities                                                                                                            | 73,354                | 51,105               |
| Deferred compensation plan obligations                                                                                                                  | 81,389                | 83,154               |
| Deferred income and allowances on sales to distributors                                                                                                 | 397,002               | 487,746              |
| Total current liabilities                                                                                                                               | 641,058               | 707,386              |
| Income taxes payable — non-current                                                                                                                      | 310,199               | 276,326              |
| Long-term debt                                                                                                                                          | 1,492,436             | 1,491,466            |
| Other non-current liabilities                                                                                                                           | 7,629                 | 8,403                |
| Total liabilities                                                                                                                                       | 2,451,322             | 2,483,581            |
| Commitments and contingencies                                                                                                                           |                       |                      |
| (See “Note 14 — Commitments and Contingencies”)                                                                                                         |                       |                      |
| Stockholders' equity:                                                                                                                                   |                       |                      |
| Common stock: \$.001 par value; 1,000,000 shares authorized; outstanding - 305,851 shares at September 26, 2014 and 317,769 shares at December 31, 2013 | 306                   | 318                  |
| Capital in excess of par value                                                                                                                          | 1,171,744             | 1,216,826            |
| Retained earnings                                                                                                                                       | 2,163,647             | 2,322,885            |
| Accumulated other comprehensive loss                                                                                                                    | (5,989)               | (27,962)             |
| Total stockholders' equity                                                                                                                              | 3,329,708             | 3,512,067            |
| Total liabilities and stockholders' equity                                                                                                              | \$5,781,030           | \$5,995,648          |

See accompanying notes to consolidated financial statements.

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ALTERA CORPORATION  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
(Unaudited)

| (In thousands, except per share amounts)                                                                                   | Three Months Ended |                    | Nine Months Ended  |                    |
|----------------------------------------------------------------------------------------------------------------------------|--------------------|--------------------|--------------------|--------------------|
|                                                                                                                            | September 26, 2014 | September 27, 2013 | September 26, 2014 | September 27, 2013 |
| Net sales                                                                                                                  | \$499,606          | \$ 445,945         | \$1,452,216        | \$ 1,278,205       |
| Cost of sales                                                                                                              | 166,019            | 141,525            | 480,279            | 402,712            |
| Gross margin                                                                                                               | 333,587            | 304,420            | 971,937            | 875,493            |
| Research and development expense                                                                                           | 112,078            | 95,336             | 310,856            | 278,542            |
| Selling, general, and administrative expense                                                                               | 77,724             | 78,907             | 231,205            | 235,376            |
| Amortization of acquisition-related intangible assets                                                                      | 2,465              | 1,846              | 7,394              | 2,974              |
| Compensation (benefit)/expense — deferred compensation plan                                                                | (487)              | ) 3,462            | 4,093              | 6,724              |
| Loss/(gain) on deferred compensation plan securities                                                                       | 487                | (3,462)            | ) (4,093)          | ) (6,724)          |
| Interest income and other                                                                                                  | (4,558)            | ) (2,214)          | ) (18,362)         | ) (6,651)          |
| Gain reclassified from other comprehensive (loss)/income                                                                   | (59)               | ) (33)             | ) (150)            | ) (129)            |
| Interest expense                                                                                                           | 10,774             | 2,511              | 32,139             | 8,365              |
| Income before income taxes                                                                                                 | 135,163            | 128,067            | 408,855            | 357,016            |
| Income tax expense                                                                                                         | 17,154             | 8,635              | 47,328             | 15,885             |
| Net income                                                                                                                 | 118,009            | 119,432            | 361,527            | 341,131            |
| Other comprehensive (loss)/income:                                                                                         |                    |                    |                    |                    |
| Unrealized holding (loss)/gain on investments:                                                                             |                    |                    |                    |                    |
| Unrealized holding (loss)/gain on investments arising during period, net of tax of (\$6), \$30, \$41 and (\$12)            | (4,929)            | ) 2,419            | 22,102             | (6,613)            |
| Less: Reclassification adjustments for gain on investments included in net income, net of tax of \$11, \$11, \$21 and \$21 | (48)               | ) (22)             | ) (129)            | ) (108)            |
| Other comprehensive (loss)/income                                                                                          | (4,977)            | ) 2,397            | 21,973             | (6,721)            |
| Comprehensive income                                                                                                       | \$ 113,032         | \$ 121,829         | \$383,500          | \$ 334,410         |
| Net income per share:                                                                                                      |                    |                    |                    |                    |
| Basic                                                                                                                      | \$0.38             | \$ 0.37            | \$1.16             | \$ 1.07            |
| Diluted                                                                                                                    | \$0.38             | \$ 0.37            | \$1.15             | \$ 1.05            |
| Shares used in computing per share amounts:                                                                                |                    |                    |                    |                    |
| Basic                                                                                                                      | 308,215            | 320,445            | 311,853            | 320,266            |
| Diluted                                                                                                                    | 310,184            | 323,505            | 314,130            | 323,355            |
| Dividends per common share                                                                                                 | \$0.18             | \$ 0.15            | \$0.48             | \$ 0.35            |

See accompanying notes to consolidated financial statements.

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ALTERA CORPORATION  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Unaudited, in thousands)

|                                                                                   | Nine Months Ended     |                       |
|-----------------------------------------------------------------------------------|-----------------------|-----------------------|
|                                                                                   | September 26,<br>2014 | September 27,<br>2013 |
| Cash Flows from Operating Activities:                                             |                       |                       |
| Net income                                                                        | \$361,527             | \$341,131             |
| Adjustments to reconcile net income to net cash provided by operating activities: |                       |                       |
| Depreciation and amortization                                                     | 42,426                | 34,256                |
| Amortization of acquisition-related intangible assets                             | 7,394                 | 2,974                 |
| Amortization of debt discount and debt issuance costs                             | 2,337                 | 844                   |
| Stock-based compensation                                                          | 70,518                | 73,011                |
| Net gain on sale of available-for-sale securities                                 | (150)                 | (129)                 |
| Amortization of investment discount/premium                                       | 1,900                 | 2,575                 |
| Deferred income tax expense/(benefit)                                             | 11,509                | (5,629)               |
| Tax effect of employee stock plans                                                | 7,434                 | 5,405                 |
| Excess tax benefit from employee stock plans                                      | (4,719)               | (4,165)               |
| Changes in assets and liabilities, net of effects of acquisitions:                |                       |                       |
| Accounts receivable, net                                                          | 76,324                | (111,231)             |
| Inventories                                                                       | (22,458)              | (2,494)               |
| Other assets                                                                      | 3,939                 | 28,673                |
| Accounts payable and other liabilities                                            | 32,581                | 12,509                |
| Deferred income and allowances on sales to distributors                           | (90,744)              | 95,961                |
| Income taxes payable                                                              | 21,477                | (8,753)               |
| Deferred compensation plan obligations                                            | (5,858)               | (5,489)               |
| Net cash provided by operating activities                                         | 515,437               | 459,449               |
| Cash Flows from Investing Activities:                                             |                       |                       |
| Purchases of property and equipment                                               | (34,946)              | (31,216)              |
| Sales of deferred compensation plan securities, net                               | 5,858                 | 5,489                 |
| Purchases of available-for-sale securities                                        | (276,867)             | (258,809)             |
| Proceeds from sale of available-for-sale securities                               | 79,424                | 84,900                |
| Proceeds from maturity of available-for-sale securities                           | 175,280               | 143,392               |
| Acquisitions, net of cash acquired                                                | —                     | (145,321)             |
| Purchases of intangible assets                                                    | (1,269)               | —                     |
| Purchases of other investments                                                    | (8,224)               | (2,101)               |
| Net cash used in investing activities                                             | (60,744)              | (203,666)             |
| Cash Flows from Financing Activities:                                             |                       |                       |
| Proceeds from issuance of common stock through stock plans                        | 29,871                | 38,748                |
| Shares withheld for employee taxes                                                | (20,852)              | (24,787)              |
| Payment of dividends to stockholders                                              | (149,844)             | (112,175)             |
| Holdback payment for prior acquisition                                            | (3,353)               | —                     |
| Payment of debt assumed in acquisitions                                           | —                     | (22,000)              |
| Long-term debt and credit facility issuance costs                                 | (1,321)               | —                     |
| Repurchases of common stock                                                       | (502,986)             | (60,276)              |
| Excess tax benefit from employee stock plans                                      | 4,719                 | 4,165                 |
| Net cash used in financing activities                                             | (643,766)             | (176,325)             |
| Net (decrease)/increase in cash and cash equivalents                              | (189,073)             | 79,458                |

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|                                                              |             |             |
|--------------------------------------------------------------|-------------|-------------|
| Cash and cash equivalents at beginning of period             | 2,869,158   | 2,876,627   |
| Cash and cash equivalents at end of period                   | \$2,680,085 | \$2,956,085 |
| See accompanying notes to consolidated financial statements. |             |             |



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ALTERA CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

Note 1 — Organization and Basis of Presentation

The accompanying unaudited consolidated financial statements of Altera Corporation and its subsidiaries, collectively referred to herein as “Altera”, “we”, “us”, or “our”, have been prepared by us in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) for interim financial information. This financial information reflects all adjustments which are, in the opinion of our management, of a normal recurring nature and necessary for a fair statement of the results for the periods presented. The December 31, 2013 consolidated balance sheet data was derived from our audited consolidated financial statements included in our 2013 Annual Report on Form 10-K, as filed with the Securities and Exchange Commission (“SEC”), but does not include all disclosures required by U.S. GAAP. The consolidated financial statements include our accounts as well as those of our wholly-owned subsidiaries after elimination of all significant inter-company balances and transactions.

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in our consolidated financial statements and accompanying notes. Actual results could differ materially from those estimates.

These consolidated financial statements should be read in conjunction with our audited consolidated financial statements for the year ended December 31, 2013 included in our Annual Report on Form 10-K. The consolidated operating results for the three months and nine months ended September 26, 2014 are not necessarily indicative of the results to be expected for any future period.

Certain prior year amounts in the consolidated financial statements and the notes thereto have been reclassified to conform to the current year presentation. Except for the balance sheet reclassification discussed further in Note 2, these reclassifications did not affect the prior period total assets, total liabilities, stockholders' equity, net income or net cash provided by operating activities.

Note 2 — Recent Accounting Pronouncements

In July 2013, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2013-11, “Presentation of an Unrecognized Tax Benefit when a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists.” This standard requires an entity to present unrecognized tax benefits as a reduction to deferred tax assets when a net operating loss carryforward, similar tax loss or a tax credit carryforward exists, with limited exceptions. We adopted this requirement in the first quarter of 2014 with retrospective application as permitted by the standard. Amounts presented in prior periods have been reclassified to conform. This resulted in both Income taxes payable—non-current and Deferred income taxes—non-current declining by approximately \$7.9 million and \$14.2 million on our consolidated balance sheets as of September 26, 2014 and December 31, 2013, respectively.

In May 2014, the FASB issued a new financial accounting standard on revenue from contracts with customers, ASU No. 2014-09, “Revenue from Contracts with Customers.” The standard outlines a single comprehensive model for companies to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance. The accounting standard is effective for annual reporting periods (including interim reporting periods within those periods) beginning after December 15, 2016. Early adoption is not permitted. We are currently evaluating the impact of this accounting standard on our consolidated financial statements.

In June 2014, the FASB issued ASU 2014-12, which provides new guidance on accounting for share-based payments when the terms of an award provide that a performance target could be achieved after the requisite service period. The update requires a reporting entity to treat a performance target that affects vesting and that could be achieved after the requisite service period as a performance condition under Accounting Standards Codification Topic ("ASC") 718 Compensation — Stock Compensation, and apply existing guidance as it relates to awards with performance conditions that affect vesting to account for such awards. The update is effective for the interim and annual periods beginning after December 15, 2015. The adoption of this standard is not expected to impact our consolidated financial statements.

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## Note 3 — Acquisitions

During the year ended December 31, 2013, we completed two acquisitions (collectively the "2013 Acquisitions") qualifying as business combinations in exchange for aggregate net cash consideration of \$145.3 million, net of cash acquired. Substantially all of the consideration was allocated to Goodwill and Acquisition-related intangible assets, net. For information on the goodwill arising from these acquisitions, see Note 4 — Goodwill and for information on the classification of intangible assets, see Note 5 — Acquisition-Related Intangible Assets, Net. These acquisitions, both individually and in the aggregate, were not significant to our consolidated results of operations. In connection with one of these acquisitions, we assumed debt of \$22.0 million, which was paid off in full immediately following the closing of the acquisition. We had no outstanding debt as of September 26, 2014 relating to these acquisitions. In connection with one of these acquisitions, an amount equal to 10% of the total purchase price was held back for payment to the former parent company on the first anniversary of the closing of the acquisition net of any indemnification obligations. During the three months ended June 27, 2014, we paid this holdback in the amount of \$3.4 million.

## Note 4 — Goodwill

Goodwill activity was as follows:

| (In thousands)                     | Nine Months Ended<br>September 26, 2014 |
|------------------------------------|-----------------------------------------|
| Beginning Balance                  | \$73,968                                |
| Additions due to 2013 Acquisitions | 373                                     |
| Ending Balance                     | \$74,341                                |

Goodwill increased \$0.4 million during the nine months ended September 26, 2014 due to a revision in the historical net operating loss carryforwards for one of our 2013 Acquisitions. Goodwill is tested for impairment annually during the fourth quarter unless a triggering event would require an expedited analysis. Adverse changes in operating results and/or unfavorable changes in economic factors used to estimate fair value could result in a non-cash impairment charge in the future.

## Note 5 — Acquisition-Related Intangible Assets, Net

Acquisition-related intangible assets, net were as follows:

| (In thousands)                                                           | September 26, 2014 |                             |            | Weighted-Average<br>Amortization<br>Period |
|--------------------------------------------------------------------------|--------------------|-----------------------------|------------|--------------------------------------------|
|                                                                          | Gross Assets       | Accumulated<br>Amortization | Net        |                                            |
| Developed technology                                                     | \$67,670           | \$(9,817)                   | ) \$57,853 | 9.4 years                                  |
| Customer relationships                                                   | 12,910             | (3,020)                     | ) 9,890    | 6.8 years                                  |
| Trade name                                                               | 3,700              | (565)                       | ) 3,135    | 8.9 years                                  |
| Non-competition agreements                                               | 700                | (475)                       | ) 225      | 2.0 years                                  |
| Other intangible assets                                                  | 930                | (777)                       | ) 153      | 1.2 years                                  |
| Acquisition-related intangible<br>assets, net subject to<br>amortization | 85,910             | (14,654)                    | ) 71,256   |                                            |
| In-process research &<br>development                                     | 3,500              | —                           | 3,500      |                                            |

|                                                     |          |           |   |          |
|-----------------------------------------------------|----------|-----------|---|----------|
| Total acquisition-related<br>intangible assets, net | \$89,410 | \$(14,654 | ) | \$74,756 |
|-----------------------------------------------------|----------|-----------|---|----------|

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December 31, 2013

| (In thousands)                                                     | Gross Assets | Accumulated Amortization | Net        | Weighted-Average Amortization Period |
|--------------------------------------------------------------------|--------------|--------------------------|------------|--------------------------------------|
| Developed technology                                               | \$60,770     | \$(4,445)                | ) \$56,325 | 9.4 years                            |
| Customer relationships                                             | 12,910       | (1,597)                  | ) 11,313   | 6.8 years                            |
| Trade name                                                         | 3,700        | (253)                    | ) 3,447    | 8.9 years                            |
| Non-competition agreements                                         | 700          | (213)                    | ) 487      | 2.0 years                            |
| Other intangible assets                                            | 930          | (752)                    | ) 178      | 1.2 years                            |
| Acquisition-related intangible assets subject to amortization, net | 79,010       | (7,260)                  | ) 71,750   |                                      |
| In-process research & development                                  | 10,400       | —                        | 10,400     |                                      |
| Total acquisition-related intangible assets, net                   | \$89,410     | \$(7,260)                | ) \$82,150 |                                      |

In-process research & development ("IPR&D") assets represent the fair value of incomplete research and development projects that had not reached technological feasibility as of the date of acquisition. In 2013, we capitalized IPR&D of \$28.1 million related to the 2013 Acquisitions. Initially, these assets are classified as indefinite-lived intangible assets that are not subject to amortization. IPR&D assets related to projects that have been completed are transferred to the developed technology intangible asset to begin amortization, while IPR&D assets related to abandoned projects are impaired and expensed to Research and development expense in the consolidated statements of comprehensive income. During the nine months ended September 26, 2014, we reclassified \$6.9 million of IPR&D costs to the developed technology intangible asset upon finalization of one of the projects. No projects were abandoned. The remaining IPR&D project that made up the IPR&D intangible asset balance as of September 26, 2014 is expected to be completed by the end of 2014.

Based on the carrying values as of September 26, 2014, the annual amortization expense for Acquisition-related intangible assets, net is expected to be as follows:

| Fiscal Year                   | Amortization Expense<br>(In thousands) |
|-------------------------------|----------------------------------------|
| 2014 (remaining three months) | \$2,465                                |
| 2015                          | 9,646                                  |
| 2016                          | 9,327                                  |
| 2017                          | 9,151                                  |
| 2018                          | 9,039                                  |
| Thereafter                    | 31,628                                 |
| Total                         | \$71,256                               |

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## Note 6 — Financial Instruments

## Cash, Cash Equivalents and Marketable Securities

The following tables summarize our cash and available-for-sale securities by significant investment category.

| (In thousands)                 | September 26, 2014 |                     |                      |               | Cash and<br>Cash<br>Equivalents | Short-Term<br>Marketable<br>Securities | Long-Term<br>Marketable<br>Securities |
|--------------------------------|--------------------|---------------------|----------------------|---------------|---------------------------------|----------------------------------------|---------------------------------------|
|                                | Cost               | Unrealized<br>Gains | Unrealized<br>Losses | Fair Value    |                                 |                                        |                                       |
| Cash                           | \$86,058           | \$—                 | \$—                  | \$86,058      | \$86,058                        | \$—                                    | \$—                                   |
| Available-for-sale:            |                    |                     |                      |               |                                 |                                        |                                       |
| Level 1:                       |                    |                     |                      |               |                                 |                                        |                                       |
| Money market funds             | 2,575,403          | —                   | —                    | 2,575,403     | 2,575,403                       | —                                      | —                                     |
| U.S. treasury securities       | 1,641,228          | 1,762               | (8,059)              | ) 1,634,931   | 18,624                          | 45,038                                 | 1,571,269                             |
| Subtotal                       | 4,216,631          | 1,762               | (8,059)              | ) 4,210,334   | 2,594,027                       | 45,038                                 | 1,571,269                             |
| Level 2:                       |                    |                     |                      |               |                                 |                                        |                                       |
| U.S. agency securities         | 27,379             | 23                  | (5)                  | ) 27,397      | —                               | 11,215                                 | 16,182                                |
| Non-U.S. government securities | 18,610             | 5                   | (2)                  | ) 18,613      | —                               | 17,080                                 | 1,533                                 |
| Municipal bonds                | 2,000              | 1                   | (2)                  | ) 1,999       | —                               | —                                      | 1,999                                 |
| Corporate debt securities      | 214,217            | 448                 | (92)                 | ) 214,573     | —                               | 60,726                                 | 153,847                               |
| Subtotal                       | 262,206            | 477                 | (101)                | ) 262,582     | —                               | 89,021                                 | 173,561                               |
| Total                          | \$4,564,895        | \$2,239             | \$(8,160)            | ) \$4,558,974 | \$2,680,085                     | \$134,059                              | \$1,744,830                           |

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| December 31, 2013              |             |                  |                   |             |                           |                                  |                                 |
|--------------------------------|-------------|------------------|-------------------|-------------|---------------------------|----------------------------------|---------------------------------|
| (In thousands)                 | Cost        | Unrealized Gains | Unrealized Losses | Fair Value  | Cash and Cash Equivalents | Short-Term Marketable Securities | Long-Term Marketable Securities |
| Cash                           | \$71,880    | \$—              | \$—               | \$71,880    | \$71,880                  | \$—                              | \$—                             |
| Available-for-sale:            |             |                  |                   |             |                           |                                  |                                 |
| Level 1:                       |             |                  |                   |             |                           |                                  |                                 |
| Money market funds             | 2,763,094   | —                | —                 | 2,763,094   | 2,763,094                 | —                                | —                               |
| U.S. treasury securities       | 1,604,450   | 15               | (28,298 )         | 1,576,167   | 34,184                    | 39,262                           | 1,502,721                       |
| Subtotal                       | 4,367,544   | 15               | (28,298 )         | 4,339,261   | 2,797,278                 | 39,262                           | 1,502,721                       |
| Level 2:                       |             |                  |                   |             |                           |                                  |                                 |
| U.S. agency securities         | 53,755      | 33               | (18 )             | 53,770      | —                         | 26,999                           | 26,771                          |
| Non-U.S. government securities | 18,352      | 5                | —                 | 18,357      | —                         | 9,306                            | 9,051                           |
| Municipal bonds                | 2,603       | —                | (7 )              | 2,596       | —                         | 603                              | 1,993                           |
| Corporate debt securities      | 219,491     | 425              | (69 )             | 219,847     | —                         | 65,317                           | 154,530                         |
| Subtotal                       | 294,201     | 463              | (94 )             | 294,570     | —                         | 102,225                          | 192,345                         |
| Total                          | \$4,733,625 | \$478            | \$(28,392 )       | \$4,705,711 | \$2,869,158               | \$141,487                        | \$1,695,066                     |

We have made certain cost method investments of approximately \$20.6 million. These investments are included within Other assets, net in our consolidated balance sheets. The investments are in privately held companies in which we have less than a 20% interest and no significant influence over the investees' operations. We report these investments at cost, except when investments are found to be more than temporarily impaired after an impairment review.

The adjusted cost and estimated fair value of marketable debt securities (corporate debt securities, municipal bonds, U.S. and foreign government securities, and U.S. treasury securities) as of September 26, 2014, by contractual maturity, are shown below. Actual maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations without call or prepayment penalties.

| (In thousands)                        | September 26, 2014 |                      |
|---------------------------------------|--------------------|----------------------|
|                                       | Cost               | Estimated Fair Value |
| Due in one year or less               | \$152,554          | \$152,683            |
| Due after one year through five years | 1,351,050          | 1,343,299            |
| Due between six and ten years         | 399,830            | 401,531              |
|                                       | \$1,903,434        | \$1,897,513          |

As of September 26, 2014, we had 113 securities, or \$1.2 billion out of our total available-for-sale securities investment portfolio, that were in a continuous unrealized loss position for less than 12 months with a gross unrealized loss of \$8.2 million. As of December 31, 2013, we had 137 securities, or \$1.6 billion out of our total available-for-sale securities investment portfolio, that were in a continuous unrealized loss position for less than 12 months with a gross unrealized loss of \$28.4 million.

We concluded that the declines in market value of our available-for-sale securities investment portfolio were temporary in nature and did not consider any of our investments to be other-than-temporarily impaired.



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## Note 7 — Accounts Receivable, Net and Significant Customers

Accounts receivable, net was comprised of the following:

| (In thousands)                  | September 26,<br>2014 | December 31,<br>2013 |
|---------------------------------|-----------------------|----------------------|
| Gross accounts receivable       | \$407,208             | \$483,628            |
| Allowance for doubtful accounts | (500)                 | (500)                |
| Allowance for sales returns     | —                     | (96)                 |
| Accounts receivable, net        | \$406,708             | \$483,032            |

We sell our products to original equipment manufacturers ("OEMs") and to electronic components distributors who resell these products to OEMs, or their subcontract manufacturers. Net sales by customer type and net sales to significant customers were as follows:

| (Percentage of Net Sales)                 | Three Months Ended    |                       | Nine Months Ended     |                       |
|-------------------------------------------|-----------------------|-----------------------|-----------------------|-----------------------|
|                                           | September 26,<br>2014 | September 27,<br>2013 | September 26,<br>2014 | September 27,<br>2013 |
| Sales to distributors                     | 74                    | % 76                  | % 73                  | % 76                  |
| Sales to OEMs                             | 26                    | % 24                  | % 27                  | % 24                  |
|                                           | 100                   | % 100                 | % 100                 | % 100                 |
| Significant Distributors <sup>(1)</sup> : |                       |                       |                       |                       |
| Arrow Electronics, Inc. ("Arrow")         | 40                    | % 41                  | % 38                  | % 41                  |
| Macnica, Inc. ("Macnica")                 | 22                    | % 23                  | % 23                  | % 23                  |

(1) Except as presented above, no other distributor accounted for greater than 10% of our net sales for the three and nine months ended September 26, 2014 or September 27, 2013.

One OEM accounted for 11% of our net sales for the year-to-date period ended September 26, 2014, and 11% and 12%, respectively, of our net sales for quarterly and year-to-date periods ended September 27, 2013. Another OEM accounted for 10% of our net sales for the quarterly period ended September 26, 2014. No other individual OEM accounted for more than 10% of our net sales for the quarterly or year-to-date periods ended September 26, 2014 or September 27, 2013.

As of September 26, 2014, accounts receivable from Arrow and Macnica individually accounted for approximately 33% and 57%, respectively, of our total accounts receivable. As of December 31, 2013, accounts receivable from Arrow and Macnica individually accounted for approximately 26% and 55%, respectively, of our total accounts receivable. No other distributor or OEM accounted for more than 10% of our accounts receivable as of September 26, 2014 or December 31, 2013.

## Note 8 — Inventories

Inventories were comprised of the following:

| (In thousands) | September 26,<br>2014 | December 31,<br>2013 |
|----------------|-----------------------|----------------------|
|----------------|-----------------------|----------------------|

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|                   |           |           |
|-------------------|-----------|-----------|
| Raw materials     | \$8,596   | \$8,390   |
| Work in process   | 108,927   | 104,755   |
| Finished goods    | 68,815    | 50,735    |
| Total inventories | \$186,338 | \$163,880 |

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## Note 9 — Property and Equipment, Net

Property and equipment, net was comprised of the following:

| (In thousands)                  | September 26,<br>2014 | December 31,<br>2013 |
|---------------------------------|-----------------------|----------------------|
| Land and land rights            | \$23,157              | \$23,157             |
| Buildings                       | 159,858               | 159,123              |
| Equipment and software          | 291,465               | 281,197              |
| Office furniture and fixtures   | 24,646                | 24,438               |
| Leasehold improvements          | 12,345                | 12,391               |
| Construction in progress        | 9,572                 | 1,798                |
| Property and equipment, at cost | 521,043               | 502,104              |
| Accumulated depreciation        | (323,830)             | (297,962)            |
| Property and equipment, net     | \$197,213             | \$204,142            |

Depreciation expense was \$11.9 million and \$37.1 million for the three and nine months ended September 26, 2014, respectively. Depreciation expense was \$10.8 million and \$31.2 million for the three and nine months ended September 27, 2013, respectively. Depreciation and amortization expense as presented in our consolidated statements of cash flows includes the above amounts, together with amortization expense on our non-acquisition related intangible assets.

## Note 10 — Deferred Income and Allowances on Sales to Distributors

Deferred income and allowances on sales to distributors was comprised of the following:

| (In thousands)                                     | September 26,<br>2014 | December 31,<br>2013 |
|----------------------------------------------------|-----------------------|----------------------|
| Deferred revenue on shipment to distributors       | \$426,157             | \$512,872            |
| Deferred cost of sales on shipment to distributors | (35,518)              | (33,809)             |
| Deferred income on shipment to distributors        | 390,639               | 479,063              |
| Other deferred revenue <sup>(1)</sup>              | 6,363                 | 8,683                |
| Total                                              | \$397,002             | \$487,746            |

(1) Principally represents revenue deferred on our maintenance contracts, software and intellectual property licenses.

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The Deferred income and allowances on sales to distributors activity was as follows:

| (In thousands)                                                  | Nine Months Ended     |                       |
|-----------------------------------------------------------------|-----------------------|-----------------------|
|                                                                 | September 26,<br>2014 | September 27,<br>2013 |
| Balance at beginning of period                                  | \$487,746             | \$345,993             |
| Deferred revenue recognized upon shipment to distributors       | 4,421,484             | 4,343,526             |
| Deferred cost of sales recognized upon shipment to distributors | (212,856)             | (194,429)             |
| Revenue recognized upon sell-through to end customers           | (852,256)             | (776,649)             |
| Cost of sales recognized upon sell-through to end customers     | 208,318               | 190,124               |
| Earned distributor price concessions <sup>(1)</sup>             | (3,602,558)           | (3,410,814)           |
| Returns                                                         | (50,615)              | (57,532)              |
| Other                                                           | (2,261)               | 4,486                 |
| Balance at end of period                                        | \$397,002             | \$444,705             |

Average aggregate price concessions typically range from 70% to 85% of our list price on an annual basis, (1) depending upon the composition of our sales, volumes and factors associated with timing of shipments to distributors.

We sell the majority of our products to distributors worldwide at a list price. However, distributors resell our products to end customers at a very broad range of individually negotiated prices based on a variety of factors, including customer, product, quantity, geography and competitive differentiation. The majority of our distributors' sales to their customers are priced at a discount from our list price. Under these circumstances, we remit back to the distributor a portion of its original purchase price after the resale transaction is completed, and we validate the distributor's resale information, including end customer, device, quantity and price, against the distributor price concession that we have approved in advance. To receive a price concession, a distributor must submit the price concession claim to us for approval within 60 days of the resale of the product to an end customer. It is our practice to apply these negotiated price discounts to future purchases, requiring the distributor to settle receivable balances, on a current basis, generally within 30 days, for amounts originally invoiced.

#### Note 11 — Accumulated Other Comprehensive Loss

The following table presents the components of, and the changes in, Accumulated other comprehensive loss, net of tax:

| (In thousands)                                                           | December 31,<br>2013 | Other<br>Comprehensive<br>Income | September 26,<br>2014 |
|--------------------------------------------------------------------------|----------------------|----------------------------------|-----------------------|
| Accumulated unrealized loss on available-for-sale securities, net of tax | \$(27,962)           | ) \$ 21,973                      | \$(5,989)             |
| Accumulated other comprehensive loss                                     | \$(27,962)           | ) \$ 21,973                      | \$(5,989)             |

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## Note 12 — Net Income Per Share

A reconciliation of basic and diluted Net income per share is presented below:

| (In thousands, except per share amounts)                                      | Three Months Ended |                    | Nine Months Ended  |                    |
|-------------------------------------------------------------------------------|--------------------|--------------------|--------------------|--------------------|
|                                                                               | September 26, 2014 | September 27, 2013 | September 26, 2014 | September 27, 2013 |
| Basic:                                                                        |                    |                    |                    |                    |
| Net income                                                                    | \$118,009          | \$119,432          | \$361,527          | \$ 341,131         |
| Basic weighted shares outstanding                                             | 308,215            | 320,445            | 311,853            | 320,266            |
| Net income per share                                                          | \$0.38             | \$0.37             | \$1.16             | \$ 1.07            |
| Diluted:                                                                      |                    |                    |                    |                    |
| Net income                                                                    | \$118,009          | \$119,432          | \$361,527          | \$ 341,131         |
| Weighted shares outstanding                                                   | 308,215            | 320,445            | 311,853            | 320,266            |
| Effect of dilutive securities:                                                |                    |                    |                    |                    |
| Stock options, employee stock purchase plan, and restricted stock unit shares | 1,969              | 3,060              | 2,277              | 3,089              |
| Diluted weighted shares outstanding                                           | 310,184            | 323,505            | 314,130            | 323,355            |
| Net income per share                                                          | \$0.38             | \$0.37             | \$1.15             | \$ 1.05            |

In applying the treasury stock method, we excluded 1.3 million and 1.8 million stock option shares and restricted stock unit (including performance-based restricted stock unit) shares for the three and nine months ended September 26, 2014, respectively, and 1.9 million stock option shares and restricted stock unit (including performance-based restricted stock unit) shares for each of the three and nine months ended September 27, 2013, respectively, because their effect was anti-dilutive. While these shares have been anti-dilutive, they could be dilutive in the future.

## Note 13 — Credit Facility and Long-Term Debt

## Credit Facility

In 2012, we entered into a five-year \$250 million unsecured revolving credit facility (the "Facility"). Under certain circumstances, upon our request and with the consent of the lenders, the commitments under the Facility may be increased up to an additional \$250 million. Borrowings under the Facility will bear interest at a base rate determined in accordance with the Facility, plus an applicable margin based upon the debt rating of our non-credit enhanced, senior unsecured long-term debt. In addition, we are obligated to pay a quarterly commitment fee, payable in arrears, based on the available commitments. This Facility fee varies and is also determined based on our debt rating. The terms of the Facility require compliance with certain financial and non-financial covenants, which we had satisfied as of September 26, 2014. As of September 26, 2014, we had not borrowed any funds under the Facility.



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## Long-term Debt

The carrying values and associated effective interest rates for our Long-term debt were as follows:

| (In thousands, except rates)                     | Effective<br>Interest Rate | September 26,<br>2014 | December 31,<br>2013 |
|--------------------------------------------------|----------------------------|-----------------------|----------------------|
| 2013 Senior Notes due November 15, 2018 at 2.50% | 2.71%                      | \$597,398             | \$596,920            |
| 2013 Senior Notes due November 15, 2023 at 4.10% | 4.29%                      | 395,433               | 395,056              |
| 2012 Senior Notes due May 15, 2017 at 1.75%      | 1.94%                      | 499,605               | 499,490              |
| Total long-term debt                             |                            | \$1,492,436           | \$1,491,466          |

In 2013, we issued \$600 million aggregate principal amount of 2.50% senior notes (the "2.50% Notes") and \$400 million aggregate principal amount of 4.10% senior notes (the "4.10% Notes") for stock repurchases and general corporate purposes. We received net proceeds of \$991.8 million, after deduction of a discount of \$8.2 million, and we capitalized direct debt issuance costs of \$5.5 million from issuance of the 2.50% Notes and the 4.10% Notes.

In 2012, we issued \$500 million aggregate principal amount of 1.75% senior notes (the "1.75% Notes") to repay our outstanding credit facility. We received net proceeds of \$499.2 million, after deduction of a discount of \$0.8 million, and we capitalized direct debt issuance costs of \$3.7 million from issuance of the 1.75% Notes.

All three of our senior notes (the "Notes") pay a fixed rate of interest semiannually on May 15 and November 15 of each year. The Notes are governed by a base and supplemental indenture between Altera and U.S. Bank National Association, as trustee. The Notes are unsecured and unsubordinated obligations, ranking equally in right of payment to all of our existing and future unsecured and unsubordinated indebtedness and senior in right of payment to any of our future indebtedness that is expressly subordinated to the Notes. We may redeem the Notes, in whole or in part, at any time and from time to time for cash at the redemption prices described in the indentures.

The direct debt issuance costs associated with the Notes are recorded in Other assets, net in our consolidated balance sheets and are being amortized to Interest expense in our consolidated statements of comprehensive income over the contractual term using the effective interest method.

The carrying values of the Notes are reflected in our consolidated balance sheets as follows:

| (In thousands)       | 2.50% Notes       |                  | 4.10% Notes       |                  | 1.75% Notes       |                  |
|----------------------|-------------------|------------------|-------------------|------------------|-------------------|------------------|
|                      | Sept. 26,<br>2014 | Dec. 31,<br>2013 | Sept. 26,<br>2014 | Dec. 31,<br>2013 | Sept. 26,<br>2014 | Dec. 31,<br>2013 |
| Principal amount     | \$600,000         | \$600,000        | \$400,000         | \$400,000        | \$500,000         | \$500,000        |
| Unamortized discount | (2,602 )          | (3,080 )         | (4,567 )          | (4,944 )         | (395 )            | (510 )           |
| Net carrying value   | \$597,398         | \$596,920        | \$395,433         | \$395,056        | \$499,605         | \$499,490        |

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Interest expense related to the Notes was included in Interest expense in the consolidated statements of comprehensive income as follows:

| (In thousands)                              | Three Months Ended    |                       | Nine Months Ended     |                       |
|---------------------------------------------|-----------------------|-----------------------|-----------------------|-----------------------|
|                                             | September 26,<br>2014 | September 27,<br>2013 | September 26,<br>2014 | September 27,<br>2013 |
| Contractual coupon interest                 | \$9,928               | \$2,172               | \$29,596              | \$6,481               |
| Amortization of debt issuance costs         | 456                   | 243                   | 1,367                 | 729                   |
| Amortization of debt discount               | 323                   | 38                    | 970                   | 115                   |
| Total interest expense related to the Notes | \$10,707              | \$2,453               | \$31,933              | \$7,325               |

The other components of Interest expense in our consolidated statements of comprehensive income are interest expense incurred as part of the assumed debt in one of our 2013 Acquisitions and interest expense incurred related to bank service fees incurred in connection with the Facility.

As of September 26, 2014, future principal payments for the Notes were as follows:

| Fiscal Year                   | Payable<br>(In thousands) |
|-------------------------------|---------------------------|
| 2014 (remaining three months) | \$—                       |
| 2015                          | —                         |
| 2016                          | —                         |
| 2017                          | 500,000                   |
| 2018 and thereafter           | 1,000,000                 |
| Total                         | \$1,500,000               |

Our Notes are classified within Level 1 of the fair value hierarchy and the estimated fair value of the Notes is based on quoted market prices. The estimated fair value of the Notes is as follows:

| (In thousands)       | 2.50% Notes       |                  | 4.10% Notes       |                  | 1.75% Notes       |                  |
|----------------------|-------------------|------------------|-------------------|------------------|-------------------|------------------|
|                      | Sept. 26,<br>2014 | Dec. 31,<br>2013 | Sept. 26,<br>2014 | Dec. 31,<br>2013 | Sept. 26,<br>2014 | Dec. 31,<br>2013 |
| Estimated fair value | \$608,040         | \$598,836        | \$415,200         | \$392,680        | \$502,650         | \$501,310        |

#### Note 14 — Commitments and Contingencies

##### Indemnification and Product Warranty

We indemnify certain customers, distributors, suppliers, and subcontractors for attorney's fees and damages and costs awarded against these parties in certain circumstances in which our products are alleged to infringe third party intellectual property rights, including patents, trade secrets, trademarks or copyrights. We cannot estimate the amount of potential future payments, if any, that we might be required to make as a result of these agreements. To date, we have not paid any claim or been required to defend any action related to our indemnification obligations, and, accordingly, we have not accrued any amounts for such indemnification obligations. However, we may record charges in the future as a result of these indemnification obligations.

We generally warrant our devices for one year against defects in materials, workmanship and material non-conformance to our specifications. We accrue for known warranty issues if a loss is probable and can be



reasonably estimated, and accrue for estimated but unidentified issues based on historical activity. If there is a material increase in customer claims compared with our historical experience or if the costs of servicing warranty claims are greater than expected, we may record a charge against cost of sales. Warranty expense was not significant for any period presented in our consolidated statements of comprehensive income.

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### Purchase Obligations

We depend entirely upon subcontractors to manufacture our silicon wafers and provide assembly and test services. Due to lengthy subcontractor lead times, we must order these materials and services from these subcontractors well in advance, and we are obligated to pay for the materials and services once they are completed. As of September 26, 2014, we had approximately \$143.0 million of outstanding purchase commitments to such subcontractors. We expect to receive and pay for these materials and services over the next six months.

### Operating Leases

We lease facilities under non-cancelable lease agreements expiring at various times through 2024. There have been no significant changes to our operating lease obligations since December 31, 2013.

### Legal Proceedings

On July 17, 2014, PLL Technologies, Inc. (PTI) filed a patent infringement lawsuit against Altera and three additional defendants in the United States District Court for the District of Delaware seeking unspecified damages, interest, costs, and fees. On October 1, 2014, PTI amended its complaint, and on October 20, 2014, Altera answered the complaint, denying the patents are valid and denying infringement. Because the case is at a very early stage, we cannot determine at this time whether any loss has been incurred by Altera nor can we reasonably estimate any potential loss or range of potential loss.

On June 20, 2014, Altera filed an action in the United States District Court for the Northern District of California against PACT XPP Technologies, AG ("PACT"), for a declaratory judgment of non-infringement and invalidity relating to several patents that PACT has asserted against us. On October 8, 2014, PACT answered the complaint and asserted counterclaims that Altera infringes various patents owned by PACT. Because the case is at a very early stage, we cannot determine at this time whether any loss has been incurred by Altera nor can we reasonably estimate any potential loss or range of potential loss.

We file income tax returns with the Internal Revenue Service ("IRS") and in various United States ("U.S.") states and foreign jurisdictions. On December 8, 2011 and January 23, 2012, the IRS issued Statutory Notices of Deficiency (the "Notices") determining, respectively, additional taxes for 2002 through 2004 of \$19.8 million and additional taxes for 2005 through 2007 of \$21.4 million, excluding interest. The IRS's determinations relate primarily to inter-company transactions, computational adjustments to the R&D credit and reductions to the benefits of tax credit carry backs and carry forwards. We deposited \$18.0 million as a cash bond with the IRS in 2008, and converted this amount to tax payments in March 2012. On March 6, 2012 and April 20, 2012, we filed petitions challenging the Notices in the U.S. Tax Court. The petitions request redetermination of the deficiencies produced by the IRS's adjustments. The IRS has filed responses to our petitions, in which the IRS conceded the R&D credit adjustment for 2004. The Tax Court has consolidated the two cases and a judge has been assigned. The federal statute of limitations for the 2002 and 2003 tax years has expired, and the ongoing Tax Court litigation concerns only the 2004 through 2007 years.

On January 31, 2013, the IRS conceded one of the adjustments at issue in the litigation for the 2004 through 2007 tax years. The conceded adjustment related to certain inter-company services transactions. The concession only impacted our 2007 tax year. As a result of this concession, we recognized a tax and interest benefit of \$6.8 million in 2013 due to the release of certain tax reserves. Altera and the IRS have filed cross motions for partial summary judgment on the largest adjustment still at issue, which is related to the treatment of stock-based compensation in an inter-company cost-sharing transaction. As part of the partial motion for summary judgment process, both sides filed briefs on May 28, 2013, July 25, 2013 and September 9, 2013. We expect to present additional legal arguments related to certain affirmative adjustments raised by Altera in the litigation. The parties have filed a series of Joint Status Reports with the court addressing these affirmative adjustments. The parties presented oral arguments on the partial summary judgment issue to the Tax Court on July 24, 2014. We believe we have made adequate tax payments or accrued adequate amounts for our tax liabilities for 2004 through 2007 and that the outcome of the above matters will not have

a material adverse effect on our consolidated operating results or financial position.

On April 19, 2013, the IRS notified us that we would be audited for each of the 2010 and 2011 tax years. We believe we have made adequate tax payments or accrued adequate amounts for our tax liabilities for 2010 and 2011 and that the outcome of the audit will not have a material adverse effect on our consolidated operating results or financial position.

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## Note 15 — Stock-Based Compensation

Our equity incentive program is a broad-based, long-term retention program intended to attract, motivate, and retain talented employees as well as align stockholder and employee interests. The program provides stock-based incentive compensation (“awards”) to both our eligible employees and non-employee directors. Awards that may be granted under the program include non-qualified and incentive stock options, restricted stock units (“RSU”s), performance-based restricted stock units (“PRSU”s), restricted stock awards, stock appreciation rights, and stock bonus awards. To date, awards granted under the program consist of stock options, RSUs and PRSUs. The majority of stock-based awards granted under the program vest over four years. Stock options granted under the program have a maximum contractual term of ten years.

We settle employee stock option exercises, ESPP purchases, and the vesting of RSUs and PRSUs with newly issued common shares.

We have issued PRSUs to senior executives with vesting that is contingent on both market performance and continued service (“market-based PRSUs”). For market-based PRSUs issued in 2012, 2013, and 2014, the number of shares of Altera stock to be received at vesting will range from 0% to 200% of the target amount based on the percentage by which our total shareholder return (“TSR”) exceeds or falls below the Philadelphia Semiconductor Index (“SOX”) TSR during a 3-year measurement period. We estimate the fair value of market-based PRSUs using a Monte Carlo simulation model on the date of grant. The model incorporates assumptions for the risk-free interest rate, Altera and SOX price volatility, the correlation between Altera and the SOX index, and dividend yields. Compensation expense is recognized ratably over the 3-year measurement period.

Stock-based compensation expense included in our consolidated statements of comprehensive income was as follows:

| (In thousands)                               | Three Months Ended |                    | Nine Months Ended  |                    |
|----------------------------------------------|--------------------|--------------------|--------------------|--------------------|
|                                              | September 26, 2014 | September 27, 2013 | September 26, 2014 | September 27, 2013 |
| Cost of sales                                | \$449              | \$515              | \$1,410            | \$1,460            |
| Research and development expense             | 9,172              | 11,324             | 30,323             | 32,125             |
| Selling, general, and administrative expense | 12,830             | 13,898             | 38,785             | 39,426             |
| Pre-tax stock-based compensation expense     | 22,451             | 25,737             | 70,518             | 73,011             |
| Less: income tax benefit                     | (5,825)            | (6,720)            | (18,670)           | (18,908)           |
| Net stock-based compensation expense         | \$16,626           | \$19,017           | \$51,848           | \$54,103           |

No stock-based compensation was capitalized during any period presented above. As of September 26, 2014, unrecognized stock-based compensation cost related to outstanding unvested stock options, RSUs, PRSUs and Employee Stock Purchase Plan (“ESPP”) shares that are expected to vest was approximately \$139.7 million. This unrecognized stock-based compensation cost is expected to be recognized over a weighted average period of approximately 2.3 years. We apply an expected forfeiture rate when amortizing stock-based compensation expense. To the extent our actual forfeiture rate is different from our estimate, stock-based compensation related to these awards will be different from our expectations.

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The assumptions used to estimate the fair value of the ESPP, RSU, and PRSU awards granted under the equity incentive program were as follows:

|                                                 | Three Months Ended    |                       | Nine Months Ended     |                       |   |   |
|-------------------------------------------------|-----------------------|-----------------------|-----------------------|-----------------------|---|---|
|                                                 | September 26,<br>2014 | September 27,<br>2013 | September 26,<br>2014 | September 27,<br>2013 |   |   |
| ESPP purchase rights:                           |                       |                       |                       |                       |   |   |
| Expected term (in years)                        | —                     | —                     | 1.0                   | 1.0                   |   |   |
| Expected stock price volatility                 | —                     | —                     | 25.5                  | % 31.2                | % | % |
| Risk-free interest rate                         | —                     | —                     | 0.1                   | % 0.1                 | % | % |
| Dividend yield                                  | —                     | —                     | 1.9                   | % 1.3                 | % | % |
| Weighted-average estimated fair value           | —                     | —                     | \$7.68                | \$8.41                |   |   |
| RSUs:                                           |                       |                       |                       |                       |   |   |
| Risk-free interest rate                         | 0.8                   | % 0.5                 | % 0.7                 | % 0.3                 | % | % |
| Dividend yield                                  | 2.2                   | % 1.7                 | % 1.9                 | % 1.2                 | % | % |
| Weighted-average estimated fair value           | \$31.24               | \$33.41               | \$30.99               | \$32.20               |   |   |
| PRSUs:                                          |                       |                       |                       |                       |   |   |
| Expected Altera stock price volatility          | —                     | —                     | 32.2                  | % 34.7                | % | % |
| Expected SOX stock price volatility             | —                     | —                     | 24.3                  | % 27.1                | % | % |
| Risk-free interest rate                         | —                     | —                     | 0.9                   | % 0.3                 | % | % |
| Dividend yield                                  | —                     | —                     | 1.9                   | % 1.2                 | % | % |
| Weighted-average estimated fair value per share | —                     | —                     | \$31.18               | \$33.03               |   |   |

We granted 303,260 and 262,647 market-based PRSUs in the nine months ended September 26, 2014 and September 27, 2013, respectively, to senior executives. As of September 26, 2014, the majority of these market-based PRSUs are still outstanding, and no market-based PRSUs have vested.

A summary of activity for our RSUs and PRSUs for the nine months ended September 26, 2014 and information regarding RSUs and PRSUs outstanding and expected to vest as of September 26, 2014 is as follows:

| (In thousands, except per share amounts and terms) | Number of Shares | Weighted-Average Grant-Date Fair Market Value Per Share | Weighted-Average Remaining Contractual Term (in Years) | Aggregate Intrinsic Value <sup>(1)</sup> |
|----------------------------------------------------|------------------|---------------------------------------------------------|--------------------------------------------------------|------------------------------------------|
| Outstanding, December 31, 2013                     | 6,392            | \$ 34.80                                                |                                                        |                                          |
| Grants                                             | 2,016            | \$ 32.48                                                |                                                        |                                          |
| Vested                                             | (2,157)          | ) \$ 34.61                                              |                                                        |                                          |
| Forfeited/Cancelled                                | (483)            | ) \$ 34.77                                              |                                                        |                                          |
| Outstanding, September 26, 2014                    | 5,768            | \$ 34.07                                                | 1.6                                                    | \$207,776                                |
| Vested and expected to vest, September 26, 2014    | 5,076            | \$ 34.07                                                | 1.5                                                    | \$182,855                                |

Aggregate intrinsic value represents the closing price per share of our stock on September 26, 2014, multiplied by (1) the number of RSUs and market-based PRSUs outstanding or vested and expected to vest as of September 26, 2014.

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A summary of stock option activity for the nine months ended September 26, 2014 and information regarding stock options outstanding, exercisable, and vested and expected to vest as of September 26, 2014 is as follows:

| (In thousands, except per share amounts and terms) | Number of Shares | Weighted-Average Exercise Price Per Share | Weighted-Average Remaining Contractual Term (in Years) | Aggregate Intrinsic Value <sup>(1)</sup> |
|----------------------------------------------------|------------------|-------------------------------------------|--------------------------------------------------------|------------------------------------------|
| Outstanding, December 31, 2013                     | 3,446            | \$ 28.11                                  |                                                        |                                          |
| Grants                                             | —                | \$ —                                      |                                                        |                                          |
| Exercises                                          | (937 )           | \$ 20.80                                  |                                                        |                                          |
| Forfeited/Cancelled/Expired                        | (62 )            | \$ 30.06                                  |                                                        |                                          |
| Outstanding, September 26, 2014                    | 2,447            | \$ 30.86                                  | 4.7                                                    | \$ 17,752                                |
| Exercisable, September 26, 2014                    | 1,873            | \$ 29.28                                  | 3.9                                                    | \$ 16,427                                |
| Vested and expected to vest, September 26, 2014    | 2,402            | \$ 30.78                                  | 4.7                                                    | \$ 17,639                                |

(1) For those stock options with an exercise price below the closing price per share on September 26, 2014, aggregate intrinsic value represents the difference between the exercise price and the closing price per share of our common stock on September 26, 2014, multiplied by the number of stock options outstanding, exercisable, or vested and expected to vest as of September 26, 2014.

For the three and nine months ended September 26, 2014, 0.3 million and 0.9 million of non-qualified stock option shares were exercised, respectively. The total intrinsic value of stock options exercised for the three and nine months ended September 26, 2014 was \$4.8 million and \$12.8 million, respectively. The aggregate intrinsic value represents the difference between the exercise price and the selling price received by option holders upon the exercise of stock options during the period. The total cash received from employees as a result of stock option exercises during the three and nine months ended September 26, 2014 was \$7.2 million and \$19.5 million, respectively.

As of September 26, 2014, our 2005 Equity Incentive Plan had a total of 26.4 million shares reserved for future issuance, of which 17.8 million shares were available for future grants.

**ESPP**

Our ESPP has two consecutive, overlapping twelve-month offering periods, with a new period commencing on the first trading day on or after May 1 and November 1 of each year and terminating on the last trading day on or before April 30 and October 31. Each twelve-month offering period generally includes two six-month purchase periods. The purchase price at which shares are sold under the ESPP is 85% of the lower of the fair market value of a share of our common stock on (1) the first day of the offering period, or (2) the last trading day of the purchase period. If the fair market value at the end of any purchase period is less than the fair market value at the beginning of the offering period, each participant is automatically withdrawn from the current offering period following the purchase of shares on the purchase date and is automatically re-enrolled in the immediately following offering period.

We sold 376,031 shares of common stock under the ESPP at a price of \$27.61 during the nine months ended September 26, 2014, and 390,077 shares of common stock under the ESPP at a price of \$26.87 during the nine months ended September 27, 2013. As of September 26, 2014, 3.7 million shares were available for future issuance under the ESPP.

Note 16 — Stockholders' Equity

We repurchase shares under our stock repurchase program announced on July 15, 1996, which has no specified expiration. No existing repurchase plans or programs have expired, nor have we decided to terminate any repurchase plans or programs prior to expiration. In 2013, we announced that our board of directors increased the share repurchase program authorization by an additional 30.0 million shares. Combined with the board's previous authorizations, there was a total of 233.0 million shares authorized for repurchase with approximately 22.0 million shares remaining for further repurchases under our stock repurchase program as of September 26, 2014. Since the inception of the stock repurchase program through September 26, 2014, we have repurchased a total of 211.0 million shares of our common stock for an aggregate cost of \$4.8 billion.

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During the nine months ended September 26, 2014, we repurchased 14.8 million shares of our common stock for a total of \$503.0 million under our stock repurchase program at an average price per share of \$34.09. During the nine months ended September 27, 2013, we repurchased 1.9 million shares of our common stock for a total of \$60.3 million under our stock repurchase program at an average price per share of \$32.54. All shares were retired upon acquisition and have been recorded as a reduction of Common stock, Capital in excess of par value and Retained earnings, as applicable.

### Note 17 — Income Taxes

We file income tax returns with the IRS and in various U.S. states and foreign jurisdictions. On December 8, 2011 and January 23, 2012, the IRS issued Statutory Notices of Deficiency (the “Notices”) determining, respectively, additional taxes for 2002 through 2004 of \$19.8 million and additional taxes for 2005 through 2007 of \$21.4 million, excluding interest. The IRS’s determinations relate primarily to inter-company transactions, computational adjustments to the R&D credit and reductions to the benefits of tax credit carry backs and carry forwards. We deposited \$18.0 million as a cash bond with the IRS in 2008, and converted this amount to tax payments in March 2012. On March 6, 2012 and April 20, 2012, we filed petitions challenging the Notices in the U.S. Tax Court. The petitions request redetermination of the deficiencies produced by the IRS’s adjustments. The IRS has filed responses to our petitions, in which the IRS conceded the R&D credit adjustment for 2004. The Tax Court has consolidated the two cases and a judge has been assigned. The federal statute of limitations for the 2002 and 2003 tax years has expired, and the ongoing Tax Court litigation concerns only the 2004 through 2007 years.

On January 31, 2013, the IRS conceded one of the adjustments at issue in the litigation for the 2004 through 2007 tax years. The conceded adjustment related to certain inter-company services transactions. The concession only impacted our 2007 tax year. As a result of this concession, we recognized a tax and interest benefit of \$6.8 million in 2013 due to the release of certain tax reserves. Altera and the IRS have filed cross motions for partial summary judgment on the largest adjustment still at issue, which is related to the treatment of stock-based compensation in an inter-company cost-sharing transaction. As part of the partial motion for summary judgment process, both sides filed briefs on May 28, 2013, July 25, 2013 and September 9, 2013. We expect to present additional legal arguments related to certain affirmative adjustments raised by Altera in the litigation. The parties have filed a series of Joint Status Reports with the court addressing these affirmative adjustments. The parties presented oral arguments on the partial summary judgment issue to the Tax Court on July 24, 2014. We believe we have made adequate tax payments or accrued adequate amounts for our tax liabilities for 2004 through 2007 and that the outcome of the above matters will not have a material adverse effect on our consolidated operating results or financial position.

On April 19, 2013, the IRS notified us that we would be audited for each of the 2010 and 2011 tax years. We believe we have made adequate tax payments or accrued adequate amounts for our tax liabilities for 2010 and 2011 and that the outcome of the audit will not have a material adverse effect on our consolidated operating results or financial position.

Other significant jurisdictions in which we are or may be subject to examination for fiscal years 2002 forward include China (including Hong Kong), Denmark, Ireland, Malaysia, Japan, Canada, United Kingdom and the state of California. We believe we have made adequate tax payments and/or accrued adequate amounts such that the outcome of these audits will have no material adverse effect on our consolidated operating results. Due to the potential resolution of various tax examinations, and the expiration of various statutes of limitations, it is possible that our gross unrecognized tax benefits may change within the next twelve months. However, given the number of years remaining subject to examination and the number of matters being examined, we are unable to estimate the full range of potential adjustments to the balance of gross unrecognized tax benefits.

Our effective tax rate reflects the impact of a significant amount of our earnings being taxed in foreign jurisdictions at rates below the U.S. statutory tax rate. Our effective tax rate for the three months ended September 26, 2014 was 12.7% compared with 6.7% for the three months ended September 27, 2013. The increase in our effective tax rate was



primarily due to lower one-time tax benefits in 2014 compared with the same period in 2013, and the expiration of the U.S. federal research and development tax credit for 2014. The U.S. federal research and development tax credit has not been extended beyond 2013. During the three months ended September 26, 2014, we reversed \$2.9 million of liabilities and related interest for uncertain tax positions upon the expiration of foreign and domestic statutes of limitation, which was substantially offset by the change in proportionately lower earnings in foreign jurisdictions taxed at rates below the U.S. statutory tax rate. During the three months ended September 27, 2013, the U.S. federal research and development tax credit was reinstated, which had expired in 2011, and we reversed \$30.3 million of liabilities and the related interest for uncertain tax positions upon the expiration of foreign and domestic statutes of limitation, which was substantially offset by \$27.7 million of tax accrued on foreign dividends.

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Our effective tax rate for the nine months ended September 26, 2014 was 11.6%, compared with 4.4% for the nine months ended September 27, 2013. The net change in our effective tax rate was primarily due to lower one-time tax benefits in 2014 compared with the same period in 2013, and the expiration of the U.S. federal research and development tax credit for 2014. During the nine months ended September 26, 2014, we reversed \$6.9 million of liabilities and the related interest for uncertain tax positions upon the expiration of a domestic and foreign statute of limitations, which was substantially offset by the change in proportionately lower earnings in foreign jurisdictions taxed at rates below the U.S. statutory tax rate. During the nine months ended September 27, 2013, we recognized a benefit of \$10.6 million resulting from the enactment of the American Taxpayer Relief Act in January 2013, which extended the U.S. federal research and development tax credit through December 31, 2013. In addition, we reversed \$6.8 million of liabilities for uncertain tax liabilities due to the IRS conceding an adjustment for certain 2007 inter-company transactions in our litigation regarding the 2004 through 2007 tax years, \$2.3 million of liabilities for uncertain tax positions relating to changes in estimates for certain foreign tax jurisdictions, and \$30.3 million of liabilities for uncertain tax positions upon the expiration of foreign and domestic statutes of limitation and the related interest, which was substantially offset by \$27.7 million of tax accrued on foreign dividends.

As of September 26, 2014, we had total gross unrecognized tax benefits of \$330.5 million which, if recognized, would potentially impact our effective tax rate. On December 31, 2013, we had total gross unrecognized tax benefits of \$301.3 million. We are unable to make a reasonable estimate as to if and when cash settlements with the relevant taxing authorities may occur.

We recognize interest and penalties related to uncertain tax positions in our income tax provision. We have accrued approximately \$51.7 million and \$48.8 million for the payment of interest and penalties related to uncertain tax positions as of September 26, 2014 and December 31, 2013, respectively.

During the fourth quarter of fiscal 2013, we recorded a deferred charge for the deferral of income tax expense on intercompany profits that resulted from the sale of our newly acquired intellectual property rights from one of our U.S. subsidiaries to one of our foreign subsidiaries. The deferred charge is included in Other current assets and Other assets, net on our consolidated balance sheets. As of September 26, 2014, the deferred charge balance in Other current assets was \$2.2 million, and \$17.2 million in Other assets, net. The deferred charge will be amortized on a straight-line basis as a component of income tax expense over ten years, based on the economic life of the intellectual property and is not expected to have a material impact on our effective tax rate.

In connection with one of our acquisitions in 2013, we are indemnified by the selling company for certain potential tax obligations arising prior to the acquisition. We have recognized a tax indemnification receivable of \$6.5 million in Other assets, net in our consolidated balance sheets. We do not expect any significant effect on earnings or cash flows related to these potential tax obligations.

### Note 18 — Non-Qualified Deferred Compensation Plan

We allow our U.S.-based officers and director-level employees to defer a portion of their compensation under the Altera Corporation Non-Qualified Deferred Compensation Plan (the “NQDC Plan”). Our Retirement Plans Committee administers the NQDC Plan. As of September 26, 2014, there were 125 participants in the NQDC Plan who self-direct their investments, subject to certain limitations. In the event we become insolvent, the NQDC Plan assets are subject to the claims of our general creditors. Since the inception of the NQDC Plan, we have not made any contributions to the NQDC Plan, and we have no commitments to do so in the future. There are no NQDC Plan provisions that provide for any guarantees or minimum return on investments. NQDC Plan participants are prohibited from investing NQDC Plan contributions in Altera common stock. The balance of the NQDC Plan assets and related obligations was \$81.4 million and \$83.2 million as of September 26, 2014 and December 31, 2013, respectively.

Investment income or loss from the NQDC Plan are recorded as Loss/(gain) on deferred compensation plan securities in our consolidated statements of comprehensive income. The investment loss/(gain) also represents a decrease/(increase) in the future payout to participants and is recorded as Compensation (benefit)/expense — deferred compensation plan in our consolidated statements of comprehensive income. Compensation (benefit)/expense associated with our NQDC Plan obligations is offset by the loss/ (gain) from the related securities. The net effect of investment income or loss and related compensation expense or benefit has no impact on our income before income taxes, net income or cash balances.

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The following tables summarize the fair value of our NQDC Plan assets by significant investment category:

| (In thousands)                         | September 26,<br>2014 | December 31,<br>2013 |
|----------------------------------------|-----------------------|----------------------|
| Deferred compensation plan assets: (1) |                       |                      |
| Level 1:                               |                       |                      |
| Restricted cash equivalents            | \$ 15,897             | \$ 16,699            |
| Equity securities                      | 30,342                | 32,628               |
| Mutual funds                           | 33,244                | 32,521               |
| Subtotal                               | 79,483                | 81,848               |
| Level 2:                               |                       |                      |
| Fixed income securities                | 1,906                 | 1,306                |
| Total                                  | \$ 81,389             | \$ 83,154            |

(1) Included in Deferred compensation plan—marketable securities and Deferred compensation plan—restricted cash equivalents in the accompanying consolidated balance sheets as of September 26, 2014 and December 31, 2013.

#### Note 19 — Declaration of Dividend Subsequent to September 26, 2014

On October 20, 2014, our board of directors declared a quarterly cash dividend of \$0.18 per common share, payable on December 1, 2014 to stockholders of record on November 10, 2014.

#### ITEM 2: Management's Discussion and Analysis of Financial Condition and Results of Operations

Our Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") is provided in addition to the accompanying consolidated financial statements and notes to assist readers in understanding our results of operations, financial condition, and cash flows. This interim MD&A should be read in conjunction with the MD&A in our Annual Report on Form 10-K for the year ended December 31, 2013.

The following MD&A, as well as information contained in the risk factors described in Part II Item 1A of this report and elsewhere in this report, contains forward-looking statements, which are provided under the "safe harbor" protection of the Private Securities Litigation Reform Act of 1995. Forward-looking statements are generally written in the future tense and/or are preceded by words such as "will," "may," "should," "could," "expect," "suggest," "believe," "anticipate," "intend," "seek," "estimate," "continue," or other similar words. In addition, any statements that refer to projections of our future financial performance, our anticipated growth and trends in our business, uncertain events or assumptions, and other characteristics of future events or circumstances are forward-looking statements. Examples of forward-looking statements include statements regarding (1) our gross margins and factors that affect gross margins; (2) trends in our future sales; (3) our research and development expenditures and efforts; (4) our capital expenditures; (5) our provision for tax liabilities and other critical accounting estimates; and (6) our exposure to market risks related to changes in interest rates, equity prices and foreign currency exchange rates.

Forward-looking statements are not guarantees of future performance and involve risks and uncertainties. The forward-looking statements contained in this report are based on information that is currently available to us and expectations and assumptions that we deemed reasonable at the time the statements were made. We do not undertake any obligation to update any forward-looking statements in this report or in any of our other communications, except as required by law. All such forward-looking statements should be read as of the time the statements were made and

with the recognition that these forward-looking statements may not be complete or accurate at a later date.

Many factors may cause actual results to differ materially from those expressed or implied by the forward-looking statements contained in this report. These factors include, but are not limited to, those risks described in Part II Item 1A of this report and those risks described under “Management's Discussion and Analysis of Financial Condition and Results of Operations” and “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2013.

## CRITICAL ACCOUNTING ESTIMATES

The preparation of our consolidated financial statements and related disclosures in conformity with accounting principles generally accepted in the United States requires our management to make judgments and estimates that affect the amounts reported in our consolidated financial statements and accompanying notes. Our management believes that we consistently apply these judgments and estimates and the consolidated financial statements and accompanying notes fairly represent all periods presented. However, any differences between these judgments and estimates and actual results could have a material impact on our consolidated statements of comprehensive income and financial position. Critical accounting estimates, as defined by the Securities and Exchange Commission (“SEC”), are those that are most important to the portrayal of our consolidated financial condition and results of operations and require our management's most difficult and subjective judgments and estimates of matters that are inherently uncertain. Our critical accounting estimates include those regarding (1) revenue recognition, (2) valuation of inventories, and (3) income taxes. For a discussion of our critical accounting estimates, see “Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations — Critical Accounting Estimates” in our Annual Report on Form 10-K for the year ended December 31, 2013.

## RESULTS OF OPERATIONS

### Overview

| (In thousands, except share and per share data) | Three Months Ended |               |           | Nine Months Ended  |                    |           |
|-------------------------------------------------|--------------------|---------------|-----------|--------------------|--------------------|-----------|
|                                                 | September 26, 2014 | June 27, 2014 | Change    | September 26, 2014 | September 27, 2013 | Change    |
| Net sales                                       | \$499,606          | \$491,517     | \$8,089   | \$1,452,216        | \$1,278,205        | \$174,011 |
| Gross margin                                    | \$333,587          | \$329,126     | \$4,461   | \$971,937          | \$875,493          | \$96,444  |
| Operating margin <sup>(1)</sup>                 | \$141,320          | \$146,567     | \$(5,247) | \$422,482          | \$358,601          | \$63,881  |
| Operating cash flows                            | \$214,049          | \$170,958     | \$43,091  | \$515,437          | \$459,449          | \$55,988  |
| Total cash, cash equivalents and investments    | \$4,558,974        | \$4,563,243   | \$(4,269) | \$4,558,974        | \$3,820,895        | \$738,079 |
| Diluted shares                                  | 310,184            | 313,513       | (3,329)   | 314,130            | 323,355            | (9,225)   |
| Diluted net income per share                    | \$0.38             | \$0.41        | \$(0.03)  | \$1.15             | \$1.05             | \$0.10    |
| Dividends per common share                      | \$0.18             | \$0.15        | \$0.03    | \$0.48             | \$0.35             | \$0.13    |

We define operating margin as gross margin less research and development expense, selling, general and administrative expense and amortization of acquisition-related intangible assets. This presentation differs from <sup>(1)</sup> income from operations as defined by United States (“U.S.”) Generally Accepted Accounting Principles (“GAAP”), as it excludes the effect of compensation associated with the deferred compensation plan obligations.

Our third quarter 2014 net sales of \$499.6 million increased 2% from the second quarter of 2014 and represented the sixth consecutive quarter of sequential net sales growth. Net sales of New Products grew 9% sequentially in the third

quarter of 2014, mostly due to an increase in net sales of our 28 nm products, which grew 30% sequentially. The increase was offset by a decline in net sales of our Mainstream and Mature and Other Products. Net sales increased in our Network, Computer & Storage vertical market with the remaining vertical markets essentially flat sequentially. Our gross margin percentage decreased from 67.0% in the second quarter of 2014 to 66.8% for the third quarter of 2014, driven by an unfavorable mix within vertical markets.

For the fourth quarter of 2014, we are forecasting a 2% to 6% decrease in net sales compared with the third quarter of 2014. The Telecom & Wireless, Networking, Computer & Storage and Other vertical markets are expected to decline in the fourth quarter of 2014, while the Industrial Automation, Military& Automotive vertical market is expected to remain flat. The forecast reflects anticipated continued strength in our 28 nm products.

We continue to generate strong operating cash flows, with \$214.0 million in cash flows from operations for the third quarter of 2014. We ended the quarter with \$4.6 billion in cash, cash equivalents and investments. During the third quarter of 2014, we returned cash to shareholders by both paying \$55.7 million in dividends and repurchasing \$144.2 million of common stock through our stock repurchase program. On October 20, 2014, our board of directors declared a cash dividend of \$0.18 per share for the fourth quarter of 2014.

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Results of operations expressed as a percentage of net sales were as follows:

|                                                             | Three Months Ended |           | Nine Months Ended |           |
|-------------------------------------------------------------|--------------------|-----------|-------------------|-----------|
|                                                             | September          | September | September         | September |
|                                                             | 26, 2014           | 27, 2013  | 26, 2014          | 27, 2013  |
| Net sales                                                   | 100.0              | % 100.0   | % 100.0           | % 100.0   |
| Cost of sales                                               | 33.2               | % 31.7    | % 33.1            | % 31.5    |
| Gross margin                                                | 66.8               | % 68.3    | % 66.9            | % 68.5    |
| Research and development expense                            | 22.4               | % 21.4    | % 21.4            | % 21.8    |
| Selling, general, and administrative expense                | 15.6               | % 17.7    | % 15.9            | % 18.4    |
| Amortization of acquisition-related intangible assets       | 0.5                | % 0.4     | % 0.5             | % 0.2     |
| Compensation (benefit)/expense - deferred compensation plan | (0.1)              | )% 0.8    | % 0.3             | % 0.5     |
| Loss/(gain) on deferred compensation plan securities        | 0.1                | % (0.8)   | )% (0.3)          | )% (0.5)  |
| Interest income and other                                   | (0.9)              | )% (0.5)  | )% (1.3)          | )% (0.5)  |
| Interest expense                                            | 2.2                | % 0.6     | % 2.2             | % 0.7     |
| Income tax expense                                          | 3.4                | % 1.9     | % 3.3             | % 1.2     |
| Net income                                                  | 23.6               | % 26.8    | % 24.9            | % 26.7    |

Our net sales for the third quarter of 2014 increased by 12% from the third quarter of 2013. The increase was mainly due to significant growth in demand for our New Products, especially in our 28 nm products. Net sales of our 28 nm products increased nearly 200% in the third quarter of 2014 compared with the third quarter of 2013. The increase in net sales for our New Products was offset by a decrease in net sales in our Mainstream and Mature and Other Products as our new technologies are being adopted.

We experienced growth in most of our vertical markets with Telecom & Wireless and Other both exhibiting double-digit year-over-year growth in the third quarter of 2014, which was slightly offset by decreases in our Networking, Computer & Storage vertical market. Net sales increased in all geographies except Japan, which experienced a modest decrease in the third quarter of 2014 compared with the third quarter of 2013.

Our net sales for the nine months ended September 26, 2014 increased by 14% from the nine months ended September 27, 2013. The increase was primarily due to significant growth in demand for our New Products, specifically in our 28 nm products. Net sales of our 28 nm products increased nearly 200% while net sales of our 40 nm products also grew in the nine months ended September 26, 2014 compared with the same period in 2013. We experienced growth in a majority of our vertical markets, particularly in the Telecom & Wireless vertical market where net sales grew 25% in the nine months ended September 26, 2014 compared to the same period in 2013. Growth in the period was slightly offset by a decrease in our Networking, Computer & Storage vertical market. Net sales increased in all geographies except the Americas, which experienced a modest decrease for the nine months ended September 26, 2014 compared with the nine months ended September 27, 2013.

#### Sales by Product Category

We classify our products into three categories: New, Mainstream, and Mature and Other Products. The composition of each product category is as follows:

• New Products include the Arria® 10, Stratix® V, Stratix IV, Arria V, Arria II, Cyclone® V, Cyclone IV, MAX® 10, MAX V, HardCopy® IV devices and Enpirion PowerSoCs.

• Mainstream Products include the Stratix III, Cyclone III, MAX II and HardCopy III devices.

•

Mature and Other Products include the Stratix II, Stratix, Arria GX, Cyclone II, Cyclone, Classic™, MAX 3000A, MAX 7000, MAX 7000A, MAX 7000B, MAX 7000S, MAX 9000, HardCopy II, HardCopy, FLEX® series, APEX™ series, Mercury™, and Excalibur™ devices, configuration and other devices, intellectual property cores and software and other tools.



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New Products are primarily comprised of our most advanced products. Customers typically select these products for their latest generation of electronic systems. Demand is generally driven by prototyping and production needs. Mainstream Products are somewhat older products that are generally no longer design-win vehicles. Demand is driven by customers' later stage production-based needs. Mature Products are yet older products with demand generated by the oldest customer systems still in production. This category also includes sales of software, intellectual property and other miscellaneous devices.

Net sales by product category were as follows:

|                  | Three Months Ended |                    |               | Year-Over-Year Change | Sequential Change | Nine Months Ended  |                    | Year-Over-Year Change |    |
|------------------|--------------------|--------------------|---------------|-----------------------|-------------------|--------------------|--------------------|-----------------------|----|
|                  | September 26, 2014 | September 27, 2013 | June 27, 2014 |                       |                   | September 26, 2014 | September 27, 2013 |                       |    |
| New              | 56                 | % 44               | % 53          | % 45                  | % 9               | % 53               | % 41               | % 45                  | %  |
| Mainstream       | 21                 | % 26               | % 21          | % (13)                | )% (3)            | )% 22              | % 28               | % (12)                | )% |
| Mature and Other | 23                 | % 30               | % 26          | % (14)                | )% (10)           | )% 25              | % 31               | % (6)                 | )% |
| Net Sales        | 100                | % 100              | % 100         | % 12                  | % 2               | % 100              | % 100              | % 14                  | %  |

## Sales by Vertical Market

The following vertical market data is derived from data that is provided to us by our distributors and end customers. With a broad base of customers, who in some cases manufacture end products spanning multiple market segments, the assignment of net sales to a vertical market requires the use of estimates, judgment and extrapolation. As such, actual results may differ from those reported.

|                                              | Three Months Ended |                    |               | Year-Over-Year Change | Sequential Change | Nine Months Ended  |                    | Year-Over-Year Change |    |
|----------------------------------------------|--------------------|--------------------|---------------|-----------------------|-------------------|--------------------|--------------------|-----------------------|----|
|                                              | September 26, 2014 | September 27, 2013 | June 27, 2014 |                       |                   | September 26, 2014 | September 27, 2013 |                       |    |
| Telecom & Wireless                           | 45                 | % 41               | % 46          | % 23                  | % (1)             | )% 46              | % 41               | % 25                  | %  |
| Industrial Automation, Military & Automotive | 21                 | % 23               | % 21          | % 3                   | % 0               | % 21               | % 22               | % 10                  | %  |
| Networking, Computer & Storage               | 16                 | % 19               | % 15          | % (5)                 | )% 14             | % 15               | % 19               | % (6)                 | )% |
| Other                                        | 18                 | % 17               | % 18          | % 18                  | % 1               | % 18               | % 18               | % 14                  | %  |
| Net Sales                                    | 100                | % 100              | % 100         | % 12                  | % 2               | % 100              | % 100              | % 14                  | %  |

## Sales of FPGAs and CPLDs

Our PLDs consist of field-programmable gate arrays, or FPGAs, including those referred to as system-on-chip FPGAs ("SoC FPGAs") that incorporate hard embedded processor cores, and complex programmable logic devices, or CPLDs. FPGAs consist of our Stratix, Cyclone, Arria, APEX, FLEX, MAX 10, and ACEX 1K, as well as our Excalibur and Mercury families. CPLDs consist of our MAX family except for MAX 10. Other Products consist of our Enpirion PowerSoCs, HardCopy ASIC devices, configuration devices, software and other tools, and IP cores.

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Our net sales of FPGAs, CPLDs, and Other Products were as follows:

|                | Three Months Ended |                    |               | Year-Over-Year Change |        | Sequential Change |  | Nine Months Ended  |                    | Year-Over-Year Change |   |
|----------------|--------------------|--------------------|---------------|-----------------------|--------|-------------------|--|--------------------|--------------------|-----------------------|---|
|                | September 26, 2014 | September 27, 2013 | June 27, 2014 |                       |        |                   |  | September 26, 2014 | September 27, 2013 |                       |   |
| FPGA           | 85                 | % 82               | % 84          | % 17                  | % 3    |                   |  | % 84               | % 83               | % 15                  | % |
| CPLD           | 8                  | % 9                | % 8           | % (10)                | )% (6) | )% 8              |  | % 8                | % 9                | % 4                   | % |
| Other Products | 7                  | % 9                | % 8           | % (7)                 | )% (6) | )% 8              |  | % 8                | % 8                | % 10                  | % |
| Net Sales      | 100                | % 100              | % 100         | % 12                  | % 2    | % 100             |  | % 100              | % 100              | % 14                  | % |

## Sales by Geography

The following table is based on the geographic location of the original equipment manufacturers or the distributors who purchased our products. The geographic location of distributors may be different from the geographic location of the ultimate end users.

Net sales by geography were as follows:

|              | Three Months Ended |                    |               | Year-Over-Year Change |        | Sequential Change |  | Nine Months Ended  |                    | Year-Over-Year Change |    |
|--------------|--------------------|--------------------|---------------|-----------------------|--------|-------------------|--|--------------------|--------------------|-----------------------|----|
|              | September 26, 2014 | September 27, 2013 | June 27, 2014 |                       |        |                   |  | September 26, 2014 | September 27, 2013 |                       |    |
| Americas     | 16                 | % 18               | % 16          | % 1                   | % 7    |                   |  | % 16               | % 18               | % (2)                 | )% |
| Asia Pacific | 42                 | % 39               | % 43          | % 20                  | % 0    | % 43              |  | % 39               | % 39               | % 24                  | %  |
| EMEA         | 29                 | % 28               | % 27          | % 15                  | % 6    | % 27              |  | % 28               | % 28               | % 13                  | %  |
| Japan        | 13                 | % 15               | % 14          | % (1)                 | )% (7) | )% 14             |  | % 15               | % 15               | % 7                   | %  |
| Net Sales    | 100                | % 100              | % 100         | % 12                  | % 2    | % 100             |  | % 100              | % 100              | % 14                  | %  |

## Price Concessions and Product Returns from Distributors

We sell the majority of our products to distributors worldwide at a list price. However, distributors resell our products to end customers at a very broad range of individually negotiated prices based on a variety of factors, including customer, product, quantity, geography and competitive differentiation. Under these circumstances, we remit back to the distributor a portion of its original purchase price after the resale transaction is completed and we validate the distributor's resale information, including end customer, device, quantity and price, against the distributor price concession that we have approved in advance. To receive price concessions, distributors must submit the price concession claims to us for approval within 60 days of the resale of the product to an end customer. Primarily because of the uncertainty related to the final price, we defer revenue recognition on sales to distributors until our products are sold from the distributor to the end customer, which is when our price is fixed or determinable. Accordingly, these pricing uncertainties impact our results of operations, liquidity and capital resources. Average aggregate price concessions typically range from 70% to 85% of our list price on an annual basis, depending upon the composition of our sales, volume and factors associated with timing of shipments to distributors or payment of the price concession. Total price concessions earned by distributors were \$3.6 billion and \$3.4 billion for the nine months ended September 26, 2014 and September 27, 2013, respectively.

Our distributors have certain rights under our contracts to return defective, overstocked, obsolete or discontinued products. Our stock rotation program generally allows distributors to return unsold product to Altera, subject to certain contract limits, based on a percentage of sales occurring over various periods prior to the stock rotation. Products

resold by the distributor to end customers are no longer eligible for return, unless specifically authorized by us. In addition, we generally warrant our products against defects in material, workmanship and non-conformance to our specifications. Returns from distributors totaled \$50.6 million and \$57.5 million for the nine months ended September 26, 2014 and September 27, 2013, respectively.

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## Gross Margin

|                         | Three Months Ended    |                       |                  | Nine Months Ended     |                       |   |
|-------------------------|-----------------------|-----------------------|------------------|-----------------------|-----------------------|---|
|                         | September 26,<br>2014 | September 27,<br>2013 | June 27,<br>2014 | September 26,<br>2014 | September 27,<br>2013 |   |
| Gross Margin Percentage | 66.8                  | % 68.3                | % 67.0           | % 66.9                | % 68.5                | % |

Gross margin rates are heavily influenced by both vertical market mix, customer pricing, and material cost improvements. While these variables will continue to fluctuate on a cyclical basis, our gross margin target over the next two to three years is between 67% and 70%. We believe that this gross margin target will enable us to achieve our desired balance between growth and profitability. Our gross margin percentage for the three months ended September 26, 2014 decreased by 1.5 points compared with the same period of 2013. Our gross margin percentage for the nine months ended September 26, 2014 decreased by 1.6 points compared with the same period of 2013. The decrease in both the three and nine-month periods is primarily attributable to an unfavorable net sales mix across and within vertical markets and customers when compared with the same periods of 2013.

## Research and Development Expense

Research and development expense includes costs for compensation and benefits, development masks, prototype wafers, and depreciation and amortization. These expenditures are for the design of new products, the development of process technologies, new package technology, software to support new products and design environments, and IP cores.

We will continue to make significant investments in the development of new products and focus our efforts on the development of new programmable logic devices that use advanced semiconductor wafer fabrication processes, as well as related development software. We are currently investing in the development of future silicon products, as well as our Quartus II software, PowerSoCs, our expanding library of IP cores and other future products.

| (In millions)                    | Three Months Ended |   |                    |   |               |   | Year-Over-Year Change | Sequential Change | Nine Months Ended  |          |                    |          |   |    | Year-Over-Year Change |
|----------------------------------|--------------------|---|--------------------|---|---------------|---|-----------------------|-------------------|--------------------|----------|--------------------|----------|---|----|-----------------------|
|                                  | September 26, 2014 |   | September 27, 2013 |   | June 27, 2014 |   |                       |                   | September 26, 2014 |          | September 27, 2013 |          |   |    |                       |
| Research and Development Expense | \$ 112.1           |   | \$ 95.3            |   | \$ 101.1      |   | 18                    | % 11              | %                  | \$ 310.9 |                    | \$ 278.5 |   | 12 | %                     |
| Percentage of Net Sales          | 22.4               | % | 21.4               | % | 20.6          | % |                       |                   |                    | 21.4     | %                  | 21.8     | % |    |                       |

Research and development expense for the three months ended September 26, 2014 increased by \$16.7 million, or 18%, compared with the three months ended September 27, 2013. The increase was primarily attributable to a \$10.6 million increase related to timing of external costs for product development activities, a \$5.8 million increase in variable compensation expense based upon improved operating results for the three months ended September 26, 2014, and a \$2.0 million increase in depreciation and amortization expense. These increases were partially offset by a \$2.2 million decrease in stock-based compensation expense.

Research and development expense for the nine months ended September 26, 2014 increased by \$32.3 million, or 12%, compared with the nine months ended September 27, 2013. The increase was primarily attributable to a \$15.4 million increase in variable compensation expense based upon improved operating results for the nine months ended September 26, 2014, an \$11.7 million increase related to timing of external costs for product development activities, a

\$7.4 million increase in depreciation and amortization expense, and a \$1.2 million increase in license costs in connection with our product development activities. These increases were partially offset by a \$2.1 million decrease in professional services in connection with our product development activities, and a \$1.8 million decrease in stock-based compensation expense.

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## Selling, General, and Administrative Expense

Selling, general, and administrative expense includes costs for compensation and benefits related to sales, marketing, and administrative employees, commissions and incentives, depreciation, legal, advertising, facilities and travel expenses.

| (In millions)                               | Three Months Ended |                    |               | Year-Over-Year Change | Sequential Change | Nine Months Ended  |                    | Year-Over-Year Change |
|---------------------------------------------|--------------------|--------------------|---------------|-----------------------|-------------------|--------------------|--------------------|-----------------------|
|                                             | September 26, 2014 | September 27, 2013 | June 27, 2014 |                       |                   | September 26, 2014 | September 27, 2013 |                       |
| Selling, General and Administrative Expense | \$77.7             | \$78.9             | \$79.0        | (1 )%                 | (2 )%             | \$ 231.2           | \$ 235.4           | (2 )%                 |
| Percentage of Net Sales                     | 15.6               | % 17.7             | % 16.1        | %                     |                   | 15.9               | % 18.4             | %                     |

Selling, general, and administrative expense for the three months ended September 26, 2014 decreased by \$1.2 million, or 1%, compared with the three months ended September 27, 2013. The decrease was primarily attributable to a \$2.6 million decrease in external professional services, a \$1.1 million decrease in stock-based compensation expense, and a \$0.9 million decrease in personnel-related costs. These decreases were offset by a \$2.8 million increase in variable compensation expense based upon improved operating results for the three months ended September 26, 2014.

Selling, general, and administrative expense for the nine months ended September 26, 2014 decreased by \$4.2 million, or 2%, compared with the nine months ended September 27, 2013. The decrease was attributable to a \$5.6 million decrease in external professional services, a non-recurring \$3.0 million 2013 expense for local non-income taxes, a \$2.9 million decrease in personnel-related costs and a \$0.6 million decrease in stock-based compensation expense. These decreases were offset by a \$7.7 million increase in variable compensation expense based upon improved operating results for the nine months ended September 26, 2014.

## Amortization of Acquisition-Related Intangible Assets

Amortization of acquisition-related intangible assets increased by \$0.6 million for the three months ended September 26, 2014, when compared with the same period in 2013, primarily due to additional in-process research & development ("IPR&D"), which was reclassified to the developed technology intangible asset upon finalization of the projects post-acquisition.

Amortization of acquisition-related intangible assets increased by \$4.4 million for the nine months ended September 26, 2014, when compared with the same period in 2013, primarily due to acquisitions in the second quarter of 2013.

## Deferred Compensation Plan

We allow our U.S.-based officers and director-level employees to defer a portion of their compensation under the Altera Corporation Non-Qualified Deferred Compensation Plan (the "NQDC Plan"). Since the inception of the NQDC Plan, we have not made any contributions to the NQDC Plan and we have no commitments to do so in the future. There are no NQDC Plan provisions that provide for any guarantees or minimum return on investments. Investment income or loss earned by the NQDC Plan is recorded as Loss/(gain) on deferred compensation plan securities in our consolidated statements of comprehensive income. We reported a net investment loss of \$0.5 million and a gain of

\$4.1 million on NQDC Plan assets for the three and nine months ended September 26, 2014. We reported a net investment gain of \$3.5 million and \$6.7 million on NQDC Plan assets for the three and nine months ended September 27, 2013, respectively. These amounts resulted from the overall market performance of the underlying securities. The investment (gain) / loss also represents an (increase) / decrease in the future payout to employees and is recorded as Compensation (benefit)/expense — deferred compensation plan in our consolidated statements of comprehensive income. The compensation (benefit)/expense associated with our NQDC Plan obligations is offset by loss/(gains) from the related securities. The net effect of the investment income or loss and related compensation expense or benefit has no impact on our income before income taxes, net income or cash balances. See Note 18 - Non-Qualified Deferred Compensation Plan to our consolidated financial statements for a detailed discussion of the NQDC Plan.

#### Interest Income and Other

Interest income and other, consisting mainly of interest income generated from money market funds and high quality fixed income securities, increased by \$2.3 million and \$11.7 million for the three and nine months ended September 26, 2014, respectively, when compared with the same periods in 2013, primarily due to the purchase of higher yielding securities to facilitate an economic hedge relative to our issuance of public debt.

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### Interest Expense

Interest expense increased by \$8.3 million and \$23.8 million for the three and nine months ended September 26, 2014, respectively, when compared with the same periods in the prior year, primarily due to the long-term debt issued in the fourth quarter of 2013.

### Income Tax Expense

Our effective tax rate reflects the impact of a significant amount of our earnings being taxed in foreign jurisdictions at rates below the U.S. statutory tax rate. Our effective tax rate for the three months ended September 26, 2014 was 12.7% compared with 6.7% for the three months ended September 27, 2013. The increase in our effective tax rate was primarily due to lower one-time tax benefits in 2014 compared with the same period in 2013, and the expiration of the U.S. federal research and development tax credit for 2014. The U.S. federal research and development tax credit has not been extended beyond 2013. During the three months ended September 26, 2014, we reversed \$2.9 million of liabilities and related interest for uncertain tax positions upon the expiration of foreign and domestic statutes of limitation, which was substantially offset by the change in proportionately lower earnings in foreign jurisdictions taxed at rates below the U.S. statutory tax rate. During the three months ended September 27, 2013, the U.S. federal research and development tax credit was reinstated, which had expired in 2011, and we reversed \$30.3 million of liabilities and the related interest for uncertain tax positions upon the expiration of foreign and domestic statutes of limitation, which was substantially offset by \$27.7 million of tax accrued on foreign dividends.

Our effective tax rate for the nine months ended September 26, 2014 was 11.6%, compared with 4.4% for the nine months ended September 27, 2013. The net change in our effective tax rate was primarily due to lower one-time tax benefits in 2014 compared with the same period in 2013, and the expiration of the U.S. federal research and development tax credit for 2014. During the nine months ended September 26, 2014, we reversed \$6.9 million of liabilities and the related interest for uncertain tax positions upon the expiration of a domestic and foreign statute of limitations, which was substantially offset by the change in proportionately lower earnings in foreign jurisdictions taxed at rates below the U.S. statutory tax rate. During the nine months ended September 27, 2013, we recognized a benefit of \$10.6 million resulting from the enactment of the American Taxpayer Relief Act in January 2013, which extended the U.S. federal research and development tax credit through December 31, 2013. In addition, we reversed \$6.8 million of liabilities for uncertain tax liabilities due to the IRS conceding an adjustment for certain 2007 inter-company transactions in our litigation regarding the 2004 through 2007 tax years, and \$2.3 million of liabilities for uncertain tax positions relating to changes in estimate for certain foreign tax jurisdictions, and \$30.3 million of liabilities for uncertain tax positions upon the expiration of foreign and domestic statutes of limitation and the related interest, which was substantially offset by \$27.7 million of tax accrued on foreign dividends.

As of September 26, 2014, we had total gross unrecognized tax benefits of \$330.5 million which, if recognized, would potentially impact our effective tax rate. On December 31, 2013, we had total gross unrecognized tax benefits of \$301.3 million. We are unable to make a reasonable estimate as to if and when cash settlements with the relevant taxing authorities may occur.

We recognize interest and penalties related to uncertain tax positions in our income tax provision. We have accrued approximately \$51.7 million and \$48.8 million for the payment of interest and penalties related to uncertain tax positions as of September 26, 2014 and December 31, 2013, respectively.

During the fourth quarter of fiscal 2013, we recorded a deferred charge for the deferral of income tax expense on intercompany profits that resulted from the sale of our newly acquired intellectual property rights from one of our U.S. subsidiaries to one of our foreign subsidiaries. The deferred charge is included in Other current assets and Other assets, net on our consolidated balance sheets. As of September 26, 2014, the deferred charge balance in Other current



assets was \$2.2 million, and \$17.2 million in Other assets, net. The deferred charge will be amortized on a straight-line basis as a component of income tax expense over ten years, based on the economic life of the intellectual property and is not expected to have a material impact on our effective tax rate.

In connection with one of our acquisitions in 2013, we are indemnified by the selling company for certain potential tax obligations arising prior to the acquisition. We have recognized a tax indemnification receivable of \$6.5 million in Other assets, net in our consolidated balance sheets. We do not expect any significant effect on earnings or cash flows related to these potential tax obligations.

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FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

We derive our liquidity and capital resources primarily from our cash flows from operations. We continue to generate strong positive operating cash flows. In 2013, we issued \$600 million aggregate principal amount of 2.5% senior notes (the "2.50% Notes") and \$400 million aggregate principal amount of 4.10% senior notes (the "4.10% Notes") that will mature on November 15, 2018, and November 15, 2023, respectively, for stock repurchases and general corporate purposes (collectively the "2013 Notes"). In 2012, we issued \$500 million aggregate principal amount of 1.75% senior notes (the "1.75% Notes") that will mature on May 15, 2017 to repay our former credit facility (the "2012 Notes"). In 2012, we entered into a credit agreement that provides for a \$250 million unsecured revolving line of credit (the "Facility"), which is scheduled to mature in June 2017. As of September 26, 2014, we had no borrowings under the Facility. As such, the \$250 million available under the Facility represents a source of liquidity.

We purchased \$1.6 billion in U.S. Treasury securities over the past two years, of which \$1.5 billion provides an economic hedge of the interest rate exposure on our 2013 and 2012 Notes. Overall, our investment portfolio is invested in mid to high investment grade securities and our investment policy generally limits the amount of credit exposure to any one issuer. The policy requires investments to be investment grade with the objective of minimizing the potential risk of principal loss.

We currently use cash to fund our operations, dividends, capital expenditures and for repurchases of our common stock. Based on past performance and current expectations, we believe that our existing cash, cash equivalents, investments, together with cash expected to be generated from operations, the Facility and our access to capital markets will be sufficient to satisfy our operations, cash dividends, capital expenditures and stock repurchases over the next 12 months.

We earn a significant amount of our operating income outside of the U.S., which is deemed to be indefinitely reinvested in foreign jurisdictions. For at least the next 12 months, we have sufficient cash in the U.S. and we expect domestic cash flow to sustain our operating activities and our expected use of cash for quarterly dividends and share buy-backs. Most of the amounts held outside of the U.S. could be repatriated to the U.S. but, under the current law, would be subject to U.S. federal income taxes, less applicable foreign tax credits. As of September 26, 2014, we had approximately \$2.0 billion of cash and cash equivalents and short-term investments held by our non-U.S. subsidiaries. We believe our U.S. sources of cash and liquidity, including external sources of financing, are sufficient to meet our business needs in the U.S. without repatriating aggregate unremitted earnings of our foreign subsidiaries.

Share Repurchases and Dividends

We repurchase shares under our stock repurchase program that was announced on July 15, 1996, which has no specified expiration. No existing repurchase plans or programs have expired, nor have we decided to terminate any repurchase plans or programs prior to expiration. In 2013, we announced that our board of directors increased the share repurchase program authorization by an additional 30.0 million shares. Combined with the board's previous authorizations, there is a total of 233.0 million shares authorized for repurchase with approximately 22.0 million shares remaining for further repurchases under our stock repurchase program as of September 26, 2014. Since the inception of the stock repurchase program through September 26, 2014, we have repurchased a total of 211.0 million shares of our common stock for an aggregate cost of \$4.8 billion. Management believes that this authorization is sufficient to support our share repurchase objectives through mid-2015.

During the nine months ended September 26, 2014, we paid \$149.8 million in cash dividends to stockholders, representing \$0.48 per common share. On October 20, 2014, our board of directors declared a cash dividend of \$0.18 per share for the third quarter of 2014.

## Shelf Registration Statement

We have an effective shelf registration statement on file with the Securities and Exchange Commission that allows us to issue senior debt securities from time to time in one or more offerings. Each issuance under the shelf registration will require the filing of a prospectus supplement identifying the amount and terms of the securities to be issued. The registration statement does not limit the amount of debt securities that may be issued thereunder. Our ability to issue debt securities is subject to market conditions and other factors impacting our borrowing capacity, including our credit ratings and compliance with the covenants in our credit agreement.

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## Cash Flows

Our cash and cash equivalents balance during the nine months ended September 26, 2014 decreased by \$189.1 million. The change in cash and cash equivalents was as follows:

| (In thousands)                                       | Nine Months Ended  |                    |
|------------------------------------------------------|--------------------|--------------------|
|                                                      | September 26, 2014 | September 27, 2013 |
| Net cash provided by operating activities            | \$515,437          | \$459,449          |
| Net cash used in investing activities                | (60,744 )          | (203,666 )         |
| Net cash used in financing activities                | (643,766 )         | (176,325 )         |
| Net (decrease)/increase in cash and cash equivalents | \$(189,073 )       | \$79,458           |

Total cash and cash equivalents accounted for 46% and 48% of total assets at September 26, 2014 and December 31, 2013, respectively.

## Operating Activities

For the nine months ended September 26, 2014, our operating activities provided \$515.4 million in cash, primarily attributable to net income of \$361.5 million, adjusted for non-cash stock-based compensation expense of \$73.2 million (net of related tax effects), depreciation and amortization (including amortization of acquisition-related intangible assets) of \$49.8 million, deferred income tax expense of \$11.5 million, amortization of debt discount and debt issuance costs of \$2.3 million, and net amortization of investment discount/premium of \$1.9 million. The net change in working capital accounts (excluding cash and cash equivalents and effects of acquisitions) was primarily due to a \$76.3 million decrease in Accounts receivable, net, a \$22.5 million increase in Inventories, a \$3.9 million decrease in Other assets, a \$90.7 million decrease in Deferred income and allowances on sales to distributors, a \$32.6 million increase in Accounts payable and other liabilities, a \$21.5 million increase in Income taxes payable, and a \$5.9 million decrease in Deferred compensation plan obligations.

Our sales to distributors are primarily made under agreements allowing for subsequent price adjustments and returns, and we defer recognition of revenue until the products are resold by the distributor. At the time of shipment to distributors, we (1) record a trade receivable at the list selling price since there is a legally enforceable obligation from the distributor to pay us currently for product delivered, (2) relieve inventory for the carrying value of goods shipped since legal title has passed to the distributor and (3) record deferred revenue and deferred cost of sales in Deferred income and allowances on sales to distributors in the liability section of our consolidated balance sheets. Accordingly, increases in Accounts receivable, net associated with higher billings are generally offset by corresponding increases in Deferred income and allowances on sales to distributors. However, timing differences between gross billings, discounts earned, collections, revenue recognition and changes in the mix of sales to OEMs and distributors may result in a temporary interruption to the normal relationship between these two accounts.

The \$76.3 million decrease in Accounts receivable, net was primarily due to the timing of cash collection by and subsequent price concessions to certain distributors. The \$90.7 million decrease in Deferred income and allowances on sales to distributors was due to net sales out-pacing gross billings to distributors near the end of the period.

The \$22.5 million increase in Inventories was mainly due to timing of material receipts and shifts in customer demand and product mix.

The \$3.9 million decrease in Other assets was primarily attributable to a net decrease in income tax receivable due to the receipt of a federal income tax refund in the second quarter of 2014, offset by an additional income tax receivable recorded in the third quarter of 2014 relating to our 2014 federal income tax return filing. This decrease was slightly offset by an increase in other prepaid items for business operations due to timing.

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The \$32.6 million increase in Accounts payable and other liabilities was primarily attributable to an increase in inventory purchases during the third quarter of 2014 compared with the same period in 2013 associated with an increase in demand for our products. The increase was also attributable to an increase in accrued variable compensation expense based upon higher operating results for the nine months ended September 26, 2014, an increase in accrued payroll due to the difference in timing between expense recognition and cash remittance, and an increase in accrued interest payable for our senior notes in the third quarter of 2014. The increase was partially offset by a decrease in other accrued liabilities due to a holdback payment for one of our 2013 acquisitions and various other accrued items as a result of timing.

The \$21.5 million increase in Income taxes payable was primarily related to higher tax liabilities in the U.S. and certain foreign jurisdictions for tax exposures related to cost sharing and transfer pricing. The increase was partially offset by a decrease in unrecognized tax benefits resulting from a new accounting pronouncement adopted in the first quarter of 2014 and the reversal of uncertain tax positions for the expiration of foreign and domestic statutes of limitations in the first and third quarters of 2014.

### Investing Activities

Cash used in investing activities in the nine months ended September 26, 2014 primarily consisted of purchases of available for sale securities of \$276.9 million, purchases of property and equipment of \$34.9 million, purchases of other investments of \$8.2 million, and purchases of intangible assets of \$1.3 million. These items were partially offset by the proceeds from the maturity of available-for-sale securities of \$175.3 million, proceeds from sales of available-for-sale securities of \$79.4 million, and sales of deferred compensation plan securities, net of \$5.9 million.

### Financing Activities

Cash used in financing activities in the nine months ended September 26, 2014 primarily consisted of repurchases of common stock of \$503.0 million, cash dividend payments of \$149.8 million, minimum statutory withholding for vested restricted stock units of \$20.9 million, a holdback payment for a 2013 acquisition of 3.4 million, and long-term debt and credit facility issuance costs of \$1.3 million. These items were partially offset by proceeds of \$29.9 million from the issuance of common stock to employees through our employee stock plans and an excess tax benefit from stock-based compensation of \$4.7 million.

## CONTRACTUAL OBLIGATIONS

We depend entirely upon subcontractors to manufacture our silicon wafers and provide assembly and test services. Due to lengthy subcontractor lead times, we must order these materials and services from these subcontractors well in advance, and we are obligated to pay for the materials and services once they are completed. As of September 26, 2014, we had approximately \$143.0 million of outstanding purchase commitments to such subcontractors. We expect to receive and pay for these materials and services over the next six months.

As of September 26, 2014, we had \$0.6 million of non-cancelable license obligations to providers of electronic design automation software and maintenance obligations expiring at various dates through December 2014.

We lease facilities under non-cancelable lease agreements expiring at various times through 2024. There have been no significant changes to our operating lease obligations since December 31, 2013.

In addition to these lease and purchase obligations, in the normal course of business we enter into a variety of agreements and financial commitments. It is not possible to predict the maximum potential amount of future payments under these agreements due to the conditional nature of our obligations and the unique facts and circumstances

involved in each particular agreement. Historically, payments pursuant to such agreements have not been material. We believe that any future payments required pursuant to such agreements would not be significant to our consolidated financial position or operating results.

As of September 26, 2014, we had total gross unrecognized tax benefits of \$330.5 million. Due to the uncertainty with respect to the timing of future cash flows associated with our unrecognized tax benefits, as of September 26, 2014, we are unable to make a reasonably reliable estimate as to if and when cash settlements with the relevant taxing authorities will occur.

#### OFF-BALANCE SHEET ARRANGEMENTS

As of September 26, 2014, we did not have any off-balance sheet arrangements, as defined in Item 303(a)(4)(ii) of SEC Regulation S-K.

#### SUBSEQUENT EVENT

On October 20, 2014, our board of directors declared a quarterly cash dividend of \$0.18 per common share, payable on December 1, 2014 to stockholders of record on November 10, 2014.

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RECENT ACCOUNTING PRONOUNCEMENTS

The information contained in Note 2 - Recent Accounting Pronouncements to our consolidated financial statements in Part I, Item 1 is incorporated by reference into this Part I, Item 2.



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ITEM 3: Quantitative and Qualitative Disclosures About Market Risk

Altera's market risk disclosures set forth in Part II, Item 7A, "Quantitative and Qualitative Disclosures About Market Risk" of our 2013 Form 10-K have not changed materially for the first nine months of 2014.

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### ITEM 4: Controls and Procedures

#### Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, as amended, as of the end of the period covered by this Quarterly Report on Form 10-Q (the "Evaluation Date").

The purpose of this evaluation was to determine if, as of the Evaluation Date, our disclosure controls and procedures were designed and operating effectively to provide reasonable assurance that the information relating to Altera, required to be disclosed in our Exchange Act filings (i) was recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, and (ii) was accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Based on the evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that as of the Evaluation Date, our disclosure controls and procedures were effective at a reasonable assurance level.

#### Changes in Internal Control over Financial Reporting

There was no change in our internal control over financial reporting (as defined in Rules 13a - 15(f) and 15(d) - 15(f) under the Exchange Act) that occurred during the period covered by this quarterly report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

#### Limitation on Effectiveness of Controls

It should be noted that any system of controls, however well designed and operated, can provide only reasonable, and not absolute, assurance that the objectives of the system are met. The design of any control system is based, in part, upon the benefits of the control system relative to its costs. Control systems can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. In addition, over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies and procedures may deteriorate. In addition, the design of any control system is based in part upon certain assumptions about the likelihood of future events.

## PART II OTHER INFORMATION

### ITEM 1: Legal Proceedings

This information is included in Note 14 - Commitments and Contingencies to our consolidated financial statements in Part I, Item 1 of this report and is incorporated herein by reference.

### ITEM 1A: Risk Factors

There have been no material changes from the risk factors previously described under Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2013. For additional information regarding risk factors, please refer to the description of the risk factors associated with our business previously disclosed in Item 1A of our Annual Report

on Form 10-K for the year ended December 31, 2013.

Before you decide to buy, hold or sell our common stock, you should carefully consider the risks described in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2013 and the other information contained elsewhere in this report. These risks are not the only risks facing our company. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also affect our business. Our business, consolidated operating results and financial position could be seriously harmed if any of the events underlying any of these risks or uncertainties actually occurs. In that event, the market price for our common stock could decline, and you may lose all or part of your investment.

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## ITEM 2: Unregistered Sales of Equity Securities and Use of Proceeds

Items 2(a) and 2(b) are inapplicable.

## 2(c) Issuer Purchases of Equity Securities

We have an ongoing authorization from our board of directors to repurchase up to 233.0 million shares of our common stock. As of September 26, 2014, we had repurchased 211.0 million shares for an aggregate cost of \$4.8 billion. No existing repurchase plans or programs have expired, nor have we decided to terminate any repurchase plans or programs prior to expiration.

During the three-month period ended September 26, 2014, we repurchased shares of our common stock as follows: (Shares are presented in thousands)

| Period                | Total Number of<br>Shares Purchased <sup>(1)</sup> | Average Price Paid<br>Per Share | Total Number of<br>Shares Purchased<br>as Part of Publicly<br>Announced Plans<br>or Programs | Maximum Number<br>of Shares that May<br>Yet Be Purchased<br>Under the Plans or<br>Programs |
|-----------------------|----------------------------------------------------|---------------------------------|----------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------|
| 07/26/2014-08/22/2014 | 1,577                                              | \$33.34                         | 1,577                                                                                        | 24,609                                                                                     |
| 08/23/2014-09/26/2014 | 2,591                                              | \$35.33                         | 2,591                                                                                        | 22,018                                                                                     |
|                       | 4,168                                              |                                 | 4,168                                                                                        |                                                                                            |

(1) No shares were purchased outside of publicly announced plans or programs.

For the majority of the restricted stock units that we grant, the number of shares issued on the date the restricted stock units vest is net of the minimum statutory withholding requirements that we pay in cash to the appropriate taxing authorities on behalf of our employees. Although these withheld shares are not issued or considered common stock repurchases under our authorized plan and are not included in the common stock repurchase totals in the preceding table, they are treated as common stock repurchases in our financial statements, as they reduce the number of shares that would have been issued upon vesting.

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## EXHIBIT INDEX

| Exhibit<br>No. | Description                                                                                                                                       | Incorporated by Reference |                |             |
|----------------|---------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------|----------------|-------------|
|                |                                                                                                                                                   | Form                      | File<br>Number | Filing Date |
| #10.9          | Altera Corporation Nonqualified Deferred Compensation Plan, as amended effective August 28, 2014                                                  |                           |                |             |
| #31.1          | Certification of Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934                                        |                           |                |             |
| #31.2          | Certification of Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934                                        |                           |                |             |
| ##32.1         | Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |                           |                |             |
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| 101.INS        | XBRL Instance Document                                                                                                                            |                           |                |             |
| 101.SCH        | XBRL Taxonomy Extension Schema Document                                                                                                           |                           |                |             |
| 101.CAL        | XBRL Taxonomy Extension Calculation Linkbase Document                                                                                             |                           |                |             |
| 101.LAB        | XBRL Taxonomy Extension Label Linkbase Document                                                                                                   |                           |                |             |
| 101.PRE        | XBRL Taxonomy Extension Presentation Linkbase Document                                                                                            |                           |                |             |
| 101.DEF        | XBRL Taxonomy Extension Definition Linkbase Document                                                                                              |                           |                |             |

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#Filed herewith

##Furnished herewith

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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.

ALTERA CORPORATION

By: /s/ RONALD J. PASEK

Ronald J. Pasek

Senior Vice President and Chief Financial Officer

(Principal Financial and Accounting Officer)

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## EXHIBIT INDEX

| Exhibit<br>No. | Description                                                                                                                                       | Incorporated by Reference |                |             |
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