

ALTERA CORP  
Form 10-Q  
October 23, 2013  
Table of Contents

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 27, 2013

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

(State or other jurisdiction of  
incorporation or organization)

101 INNOVATION DRIVE

SAN JOSE, CALIFORNIA 95134

(Address of principal executive offices) (zip code)

408-544-7000

77-0016691

(I.R.S. Employer

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

Edgar Filing: ALTERA CORP - Form 10-Q

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, 2013: 321,128,555

---

PART I FINANCIAL INFORMATION

ITEM 1. Financial Statements (Unaudited)

Consolidated Balance Sheets 3

Consolidated Statements of Comprehensive Income 4

Consolidated Statements of Cash Flows 5

Notes to Consolidated Financial Statements 6

ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations 21

ITEM 3. Quantitative and Qualitative Disclosures about Market Risk 30

ITEM 4. Controls and Procedures 31

PART II OTHER INFORMATION

ITEM 1. Legal Proceedings 31

ITEM 1A. Risk Factors 31

ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds 32

ITEM 6. Exhibits 33

Signatures 34

Table of Contents

## PART I FINANCIAL INFORMATION

## ITEM 1: Financial Statements

## ALTERA CORPORATION

## CONSOLIDATED BALANCE SHEETS

(Unaudited)

(In thousands, except par value amount)	September 27, 2013	December 31, 2012
Assets		
Current assets:		
Cash and cash equivalents	\$2,956,085	\$2,876,627
Short-term investments	151,159	140,958
Total cash, cash equivalents, and short-term investments	3,107,244	3,017,585
Accounts receivable, net	436,421	323,708
Inventories	158,441	152,721
Deferred income taxes — current	62,575	59,049
Deferred compensation plan — marketable securities	58,402	60,321
Deferred compensation plan — restricted cash equivalents	20,270	17,116
Other current assets	30,479	49,852
Total current assets	3,873,832	3,680,352
Property and equipment, net	198,642	206,148
Long-term investments	713,651	704,758
Deferred income taxes — non-current	13,548	17,082
Goodwill	93,073	2,329
Acquisition-related intangible assets, net	86,500	4,874
Other assets, net	40,518	42,285
Total assets	\$5,019,764	\$4,657,828
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$52,224	\$50,036
Accrued liabilities	37,525	29,005
Accrued compensation and related liabilities	43,544	40,606
Deferred compensation plan obligations	78,672	77,437
Deferred income and allowances on sales to distributors	444,705	345,993
Total current liabilities	656,670	543,077
Income taxes payable — non-current	266,395	272,000
Long-term debt	500,000	500,000
Other non-current liabilities	8,916	9,304
Total liabilities	1,431,981	1,324,381
Commitments and contingencies (See “Note 14 — Commitments and Contingencies”)		
Stockholders' equity:		
Common stock: \$.001 par value; 1,000,000 shares authorized; outstanding - 321,105 shares at September 27, 2013 and 319,564 shares at December 31, 2012	321	320
Capital in excess of par value	1,214,586	1,122,555
Retained earnings	2,374,005	2,204,980
Accumulated other comprehensive (loss)/ income	(1,129	) 5,592
Total stockholders' equity	3,587,783	3,333,447

Total liabilities and stockholders' equity	\$5,019,764	\$4,657,828
--	-------------	-------------

See accompanying notes to consolidated financial statements.

3

---

Table of Contents

ALTERA CORPORATION  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
(Unaudited)

(In thousands, except per share amounts)	Three Months Ended		Nine Months Ended	
	September 27, 2013	September 28, 2012	September 27, 2013	September 28, 2012
Net sales	\$445,945	\$ 495,010	\$1,278,205	\$ 1,343,595
Cost of sales	141,525	152,007	402,712	408,156
Gross margin	304,420	343,003	875,493	935,439
Research and development expense	95,336	91,393	278,542	265,619
Selling, general, and administrative expense	78,907	74,243	235,376	215,824
Amortization of acquisition-related intangible assets	1,846	213	2,974	640
Compensation expense — deferred compensation plan	3,462	3,274	6,724	6,697
Gain on deferred compensation plan securities	(3,462 )	(3,274 )	(6,724 )	(6,697 )
Interest income and other	(2,214 )	(2,775 )	(6,651 )	(5,997 )
(Gain)/loss reclassified from other comprehensive income	(33 )	108	(129 )	(63 )
Interest expense	2,511	2,333	8,365	5,386
Income before income taxes	128,067	177,488	357,016	454,030
Income tax expense	8,635	19,999	15,885	18,028
Net income	119,432	157,489	341,131	436,002
Other comprehensive income/(loss):				
Unrealized holding gain/(loss) on investments:				
Unrealized holding gain/(loss) on investments arising during period, net of tax of \$30, \$43, (\$12) and \$108	2,419	3,620	(6,613 )	6,723
Less: Reclassification adjustments for gain on investments included in net income, net of tax of \$11, \$1, \$21 and \$6	(22 )	(41 )	(108 )	(64 )
	2,397	3,579	(6,721 )	6,659
Unrealized (loss)/gain on derivatives:				
Unrealized (loss)/gain on derivatives arising during period, net of tax of (\$6) and \$36	—	(10 )	—	67
Less: Reclassification adjustments for loss on derivatives included in net income, net of tax of \$53 and \$2	—	97	—	5
	—	87	—	72
Other comprehensive income/(loss)	2,397	3,666	(6,721 )	6,731
Comprehensive income	\$121,829	\$ 161,155	\$334,410	\$ 442,733
Net income per share:				
Basic	\$0.37	\$ 0.49	\$1.07	\$ 1.36
Diluted	\$0.37	\$ 0.49	\$1.05	\$ 1.34
Shares used in computing per share amounts:				
Basic	320,445	319,870	320,266	321,200
Diluted	323,505	323,560	323,355	325,275

Edgar Filing: ALTERA CORP - Form 10-Q

Dividends per common share	\$0.15	\$ 0.10	\$0.35	\$ 0.26
----------------------------	--------	---------	--------	---------

See accompanying notes to consolidated financial statements.

4

---

Table of Contents

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

	Nine Months Ended	
	September 27, 2013	September 28, 2012
Cash Flows from Operating Activities:		
Net income	\$341,131	\$436,002
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	34,256	25,786
Amortization of acquisition-related intangible assets	2,974	640
Stock-based compensation	73,011	70,790
Net gain on sale of available-for-sale securities	(129)	—
Amortization of investments, net	2,575	—
Deferred income tax benefit	(5,629)	(3,367)
Tax effect of employee stock plans	5,405	14,381
Excess tax benefit from employee stock plans	(4,165)	(20,790)
Changes in assets and liabilities, net of effects of acquisitions:		
Accounts receivable, net	(111,231)	(116,000)
Inventories	(2,494)	(35,569)
Other assets	29,517	5,478
Accounts payable and other liabilities	12,509	(34,670)
Deferred income and allowances on sales to distributors	95,961	120,475
Income taxes payable	(8,753)	(650)
Deferred compensation plan obligations	(5,489)	(2,001)
Net cash provided by operating activities	459,449	460,505
Cash Flows from Investing Activities:		
Purchases of property and equipment	(31,216)	(53,712)
Proceeds from sales of deferred compensation plan securities, net	5,489	2,001
Purchases of available-for-sale securities	(258,809)	(819,662)
Proceeds from sale and maturity of available-for-sale securities	228,292	135,650
Acquisitions, net of cash acquired	(145,321)	—
Purchases of intangible assets	—	(2,280)
Purchases of other investments	(2,101)	(4,510)
Net cash used in investing activities	(203,666)	(742,513)
Cash Flows from Financing Activities:		
Proceeds from issuance of common stock through various stock plans	38,748	37,514
Shares withheld for employee taxes	(24,787)	(30,529)
Payment of dividends to stockholders	(112,175)	(83,570)
Payment of debt assumed in acquisitions	(22,000)	—
Proceeds from issuance of long term debt	—	500,000
Repayment of credit facility	—	(500,000)
Long-term debt and credit facility issuance costs	—	(5,244)
Repurchases of common stock	(60,276)	(179,057)
Excess tax benefit from employee stock plans	4,165	20,790
Net cash used in financing activities	(176,325)	(240,096)
Net increase (decrease) in cash and cash equivalents	79,458	(522,104)
Cash and cash equivalents at beginning of period	2,876,627	3,371,933



Edgar Filing: ALTERA CORP - Form 10-Q

Cash and cash equivalents at end of period	\$2,956,085	\$2,849,829
--	-------------	-------------

See accompanying notes to consolidated financial statements.

5

---

Table of Contents

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, 2012 consolidated balance sheet data was derived from our audited consolidated financial statements included in our 2012 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, 2012 included in our Annual Report on Form 10-K. The consolidated operating results for the three and nine months ended September 27, 2013 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. 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. This standard is effective for fiscal years beginning on or after December 15, 2013, and for interim periods within those fiscal years. We are currently assessing the potential impact of ASU No. 2013-11 on our financial statements.

In February 2013, the FASB issued ASU No. 2013-02, “Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income.” This standard requires entities to present information about reclassification adjustments from accumulated other comprehensive income in the annual financial statements in a single note or on the face of the financial statements. Public companies will also have to provide this information in their interim financial statements. The new requirements are effective as of the beginning of a fiscal year that begins after December 15, 2012 and interim and annual periods thereafter. We early adopted this guidance in our fiscal year 2012 and it did not have a material impact on our consolidated financial statements.



Table of Contents

## Note 3 — Acquisitions

During the three months ended June 28, 2013, we completed two 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 our acquisitions, see Note 4 - Goodwill and for information on the classification of intangible assets, see Note 5 - Acquisition-Related Intangible Assets, Net. 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 have no outstanding debt as of September 27, 2013 relating to these acquisitions. These acquisitions, both individually and in the aggregate, were not significant to our consolidated results of operations.

As of September 27, 2013, we had not yet finalized the valuation of the deferred tax assets in connection with these acquisitions. The finalization of these amounts is not expected to have a material effect on our consolidated financial position.

## Note 4 — Goodwill

Goodwill activity was as follows:

(In thousands)	Nine Months Ended September 27, 2013
Beginning Balance	\$ 2,329
Additions due to acquisitions	90,744
Ending Balance	\$ 93,073

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 27, 2013			Weighted-Average Amortization Period	
	Gross Assets	Accumulated Amortization	Net		
Developed technology	\$ 43,070	\$ (3,270	)	\$ 39,800	9.2 years
Customer relationships	12,910	(1,123	)	11,787	6.8 years
Trade name	3,700	(148	)	3,552	8.9 years
Non-competition agreements	700	(125	)	575	2.0 years
Other intangible assets	930	(744	)	186	1.2 years
Acquisition-related intangible assets, net subject to amortization	61,310	(5,410	)	55,900	
	30,600	—		30,600	

In-process research &  
development

Total acquisition-related intangible assets, net	\$91,910	\$(5,410	)	\$86,500
---	----------	----------	---	----------

7

---

Table of Contents

(In thousands)	December 31, 2012			Weighted-Average Amortization Period
	Gross Assets	Accumulated Amortization	Net	
Developed technology	\$5,670	\$(1,342)	) \$4,328	8.8 years
Customer relationships	910	(364)	) 546	5.0 years
Other intangible assets	730	(730)	) —	1.0 year
Acquisition-related intangible assets subject to amortization, net	7,310	(2,436)	) 4,874	
Total acquisition-related intangible assets, net	\$7,310	\$(2,436)	) \$4,874	

Based on the carrying value of acquisition-related intangible assets, net as of September 27, 2013, the annual amortization expense for acquisition-related intangible assets, net is expected to be as follows:

Fiscal Year	Amortization Expense (In thousands)
2013 (remaining three months)	\$1,850
2014	7,398
2015	7,186
2016	6,867
2017	6,692
Thereafter	25,907
Total	\$55,900

Table of Contents

## 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 27, 2013			Fair Value	Cash and Cash Equivalents	Short-Term Marketable Securities	Long-Term Marketable Securities
	Cost	Unrealized Gains	Unrealized Losses				
Cash	\$55,645	\$—	\$—	\$55,645	\$55,645	\$—	\$—
Available-for-sale:							
Level 1:							
Money market funds	2,875,377	—	—	2,875,377	2,875,377	—	—
U.S. treasury securities	595,841	18	(1,369 )	594,490	22,525	50,248	521,717
Subtotal	3,471,218	18	(1,369 )	3,469,867	2,897,902	50,248	521,717
Level 2:							
U.S. agency securities	59,850	35	(27 )	59,858	2,538	14,272	43,048
Non-U.S. government securities	17,389	5	(1 )	17,393	—	9,338	8,055
Municipal bond	1,606	—	(6 )	1,600	—	606	994
Corporate securities	216,277	371	(116 )	216,532	—	76,695	139,837
Subtotal	295,122	411	(150 )	295,383	2,538	100,911	191,934
Total	\$3,821,985	\$429	\$(1,519 )	\$3,820,895	\$2,956,085	\$151,159	\$713,651

Table of Contents

(In thousands)	December 31, 2012						
	Cost	Unrealized Gains	Unrealized Losses	Fair Value	Cash and Cash Equivalents	Short-Term Marketable Securities	Long-Term Marketable Securities
Cash	\$89,194	\$—	\$—	\$89,194	\$89,194	\$—	\$—
Available-for-sale:							
Level 1:							
Money market funds	2,739,904	—	—	2,739,904	2,739,904	—	—
U.S. treasury securities	564,713	5,231	(3 )	569,941	33,519	22,493	513,929
Subtotal	3,304,617	5,231	(3 )	3,309,845	2,773,423	22,493	513,929
Level 2:							
U.S. agency securities	116,802	58	(1 )	116,859	11,799	53,438	51,622
Non-U.S. government securities	11,644	10	(2 )	11,652	—	2,730	8,922
Municipal bond	1,372	1	—	1,373	—	752	621
Corporate securities	193,048	436	(64 )	193,420	2,211	61,545	129,664
Subtotal	322,866	505	(67 )	323,304	14,010	118,465	190,829
Total	\$3,716,677	\$5,736	\$(70 )	\$3,722,343	\$2,876,627	\$140,958	\$704,758

We have certain cost method investments of approximately \$7.0 million. These investments are included within Other assets, net in our consolidated balance sheets.

The adjusted cost and estimated fair value of marketable debt securities (corporate securities, municipal bonds, U.S. and foreign government securities, and U.S. treasury securities) as of September 27, 2013, 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 27, 2013	
	Cost	Estimated Fair Value
Due in one year or less	\$176,134	\$176,222
Due after one year through five years	714,829	713,651
	\$890,963	\$889,873

As of September 27, 2013, \$609.7 million of our total available-for-sale securities has been in a continuous unrealized loss position for less than 12 months with a gross unrealized loss of \$1.5 million. As of December 31, 2012, \$118.7 million of the total available-for-sale securities was in a continuous loss position for less than 12 months with a gross unrealized loss of \$0.1 million.



Table of Contents

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

Accounts receivable, net was comprised of the following:

(In thousands)	September 27, 2013	December 31, 2012
Gross accounts receivable	\$436,961	\$324,260
Allowance for doubtful accounts	(500 )	(500 )
Allowance for sales returns	(40 )	(52 )
Accounts receivable, net	\$436,421	\$323,708

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 27, 2013	September 28, 2012	September 27, 2013	September 28, 2012	
Sales to distributors	76	% 69	% 76	% 70	%
Sales to OEMs	24	% 31	% 24	% 30	%
	100	% 100	% 100	% 100	%
Significant Distributors <sup>(1)</sup> :					
Arrow Electronics, Inc. ("Arrow")	41	% 40	% 41	% 39	%
Macnica, Inc. ("Macnica")	23	% 19	% 23	% 21	%

(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 27, 2013 or September 28, 2012.

One OEM accounted for 11% and 12%, respectively, of our net sales for quarterly and year-to-date periods ended September 27, 2013, and 16% and 18%, respectively, for the quarterly and year-to-date periods ended September 28, 2012.

As of September 27, 2013, accounts receivable from Arrow and Macnica individually accounted for approximately 40% and 44%, respectively, of our total accounts receivable. As of December 31, 2012, accounts receivable from Arrow and Macnica individually accounted for approximately 30% and 47%, respectively, of our total accounts receivable. No other distributor or OEM accounted for more than 10% of our accounts receivable as of September 27, 2013 or December 31, 2012.

## Note 8 — Inventories

Inventories were comprised of the following:

(In thousands)	September 27, 2013	December 31, 2012
Raw materials	\$8,926	\$12,447
Work in process	113,900	88,643
Finished goods	35,615	51,631

Total inventories	\$158,441	\$152,721
-------------------	-----------	-----------

11

---

Table of Contents

## Note 9 — Property and Equipment, Net

Property and equipment, net was comprised of the following:

(In thousands)	September 27, 2013	December 31, 2012
Land and land rights	\$23,157	\$23,157
Buildings	158,566	159,247
Equipment and software	269,758	256,725
Office furniture and fixtures	24,338	24,531
Leasehold improvements	12,303	11,915
Construction in progress	3,417	1,705
Property and equipment, at cost	491,539	477,280
Accumulated depreciation	(292,897 )	(271,132 )
Property and equipment, net	\$198,642	\$206,148

Depreciation expense was \$10.8 million and \$31.2 million for the three and nine months ended September 27, 2013. Depreciation expense was \$8.7 million and \$23.7 million for the three and nine months ended September 28, 2012. 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 27, 2013	December 31, 2012
Deferred revenue on shipment to distributors	\$461,748	\$363,641
Deferred cost of sales on shipment to distributors	(29,449 )	(28,101 )
Deferred income on shipment to distributors	432,299	335,540
Other deferred revenue <sup>(1)</sup>	12,406	10,453
Total	\$444,705	\$345,993

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

Table of Contents

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

(In thousands)	Nine Months Ended	
	September 27, 2013	September 28, 2012
Balance at beginning of period	\$345,993	\$279,876
Deferred revenue recognized upon shipment to distributors	4,343,526	4,006,945
Deferred cost of sales recognized upon shipment to distributors	(194,429 )	(181,660 )
Revenue recognized upon sell-through to end customers	(776,649 )	(763,141 )
Cost of sales recognized upon sell-through to end customers	190,124	176,455
Earned distributor price concessions <sup>(1)</sup>	(3,410,814 )	(3,057,927 )
Returns	(57,532 )	(61,531 )
Other	4,486	1,334
Balance at end of period	\$444,705	\$400,351

Average aggregate price concessions typically range from 65% to 80% 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)/ Income

The following table presents the components of, and the changes in, accumulated other comprehensive (loss)/ income, net of tax:

(In thousands)	December 31, 2012	Other Comprehensive (Loss)/ Income	September 27, 2013
Accumulated unrealized gain (loss) on available-for-sale securities, net of tax	\$5,592	\$(6,721 )	\$(1,129 )
Accumulated other comprehensive income/ (loss)	\$5,592	\$(6,721 )	\$(1,129 )



Table of Contents

## Note 12 — Income Per Share

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

(In thousands, except per share amounts)	Three Months Ended		Nine Months Ended	
	September 27, 2013	September 28, 2012	September 27, 2013	September 28, 2012
Basic:				
Net income	\$ 119,432	\$ 157,489	\$ 341,131	\$ 436,002
Basic weighted shares outstanding	320,445	319,870	320,266	321,200
Net income per share	\$0.37	\$0.49	\$1.07	\$ 1.36
Diluted:				
Net income	\$ 119,432	\$ 157,489	\$ 341,131	\$ 436,002
Weighted shares outstanding	320,445	319,870	320,266	321,200
Effect of dilutive securities:				
Stock options, employee stock purchase plan, and restricted stock unit shares	3,060	3,690	3,089	4,075
Diluted weighted shares outstanding	323,505	323,560	323,355	325,275
Net income per share	\$0.37	\$0.49	\$1.05	\$ 1.34

In applying the treasury stock method, we excluded 1.9 million stock option shares and restricted stock unit shares for each of the three and nine month periods ended September 27, 2013, and 1.7 million and 1.4 million stock option shares and restricted stock unit shares for the three and nine months ended September 28, 2012, 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

On June 29, 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 have satisfied as of September 27, 2013. As of September 27, 2013, we have not borrowed any funds under the Facility.

## Long-term Debt

On May 8, 2012, we completed a public offering of \$500 million aggregate principal amount of 1.75% senior notes that will mature on May 15, 2017 (the "Notes") with an effective interest rate of 1.91%. Interest on the Notes is

payable semiannually in arrears on May 15 and November 15 of each year, beginning on November 15, 2012. The Notes are governed by a base and supplemental indenture between Altera and U.S. Bank National Association, as trustee. The Notes are our 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 indenture.

We received net proceeds of \$495.5 million from issuance of the Notes, after deduction of issuance costs of \$3.7 million and a discount of \$0.8 million. The debt issuance costs and discount are recorded in Other assets, net and are being amortized to

## Table of Contents

interest expense over five years using the effective interest method. We used the net proceeds of the Notes to re-pay our former credit facility.

The estimated fair value of Altera's long-term debt was approximately \$497.5 million at September 27, 2013. Our long-term debt is classified within Level 1 of the fair value hierarchy and the estimated fair value of the debt is based on quoted market prices.

### 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.

#### 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 27, 2013, we had approximately \$132.1 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 2021. There have been no significant changes to our operating lease obligations since December 31, 2012.

#### Legal Proceedings

On December 8, 2010, Intellectual Ventures I LLC and Intellectual Ventures II LLC ("Intellectual Ventures") filed a lawsuit in the United States District Court for the District of Delaware against Altera, Microsemi Corporation, and Lattice Semiconductor Corporation ("Lattice") alleging that Altera infringes five patents. The complaint requests unspecified monetary damages including enhanced damages for willful infringement. In February 2011, Intellectual Ventures filed a First Amended Complaint adding Xilinx, Inc. as a defendant. In March 2011, Altera answered the complaint and asserted counterclaims against Intellectual Ventures for non-infringement and invalidity of the asserted patents. The defendants filed motions in the District of Delaware to transfer the case to the United States District Court for the Northern District of California and to stay the action pending re-examination proceedings in the United



States Patent and Trademark Office. Intellectual Ventures opposed the motions. In January 2012, the United States District Court for the District of Delaware denied the defendants' motion to transfer the case to the Northern District of California, and in February 2012, the court denied the defendants' motion to stay. Three of the four defendants, including Altera, filed a writ of mandamus in the Court of Appeals for the Federal Circuit requesting that the case be transferred to the Northern District of California. In July 2012, the Court of Appeals for the Federal Circuit denied the writ of mandamus. In January 2013, Intellectual Ventures and Microsemi announced a settlement agreement, which included a dismissal of all claims against Microsemi. In March 2013, Intellectual Ventures and Lattice announced a settlement agreement, which included a dismissal of all claims against Lattice. At this stage in the litigation, we believe that the resolution of this case will not have a material adverse impact on our consolidated results of operations.

We file income tax returns with the Internal Revenue Service ("IRS") and in various U.S. states and foreign jurisdictions. In 2008, the IRS completed field examinations of our tax returns for 2002 through 2004 and proposed an additional tax liability of \$34.5 million, excluding interest. We contested this proposed additional tax liability in the IRS Office of Appeals and resolved

Table of Contents

several of the issues. On December 8, 2011, the IRS issued a Statutory Notice of Deficiency, revising the assessment of additional taxes for 2002 through 2004 to \$19.8 million, excluding interest. The Notice relates primarily to inter-company adjustments between related companies, computational adjustments to the research and development ("R&D") credit and reductions to the benefits of tax credit carrybacks and carryforwards to subsequent years. On March 6, 2012, we filed a petition in the U.S. Tax Court to request a redetermination of the tax deficiency regarding certain IRS adjustments for 2004. 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 May 8, 2012, the IRS filed its petition response in the U.S. Tax Court, in which the IRS conceded the R&D credit adjustment for 2004. In June 2012, the federal statute of limitations for the 2002 and 2003 tax years expired.

In addition, in 2010 the IRS completed field examinations for 2005 through 2007 and proposed an additional tax liability of \$34.2 million, excluding interest. On January 23, 2012, the IRS issued a Statutory Notice of Deficiency, revising the assessment of additional taxes for 2005 through 2007 to \$21.4 million, excluding interest. The Notice relates primarily to inter-company adjustments between related companies and reductions to the benefits of tax credit carrybacks and carryforwards to subsequent years. On April 20, 2012, we filed a petition in the U.S. Tax Court to request a redetermination of the tax deficiencies regarding certain IRS adjustments for 2005 through 2007. On June 21, 2012, the IRS filed its petition response in the U.S. Tax Court.

On August 15, 2012, the case for the 2004 tax year was combined with that for the 2005 through 2007 tax years. A judge has been assigned to our case and a motion for continuance has been granted. 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 January 31, 2013, the IRS conceded an adjustment for certain inter-company transactions in our litigation regarding the 2004 through 2007 tax years. The concession only impacted our 2007 tax year. Our other inter-company transactions continue to be subject to litigation for 2004 through 2007. As a result of this concession, we recognized a tax and interest benefit of \$6.8 million during the three months ended March 29, 2013 due to the release of certain tax reserves.

Altera and the IRS agreed to file motions for partial summary judgment regarding one of the remaining inter-company transactions subject to litigation for the 2004 through 2007 tax years. As part of the partial summary judgment process, both sides filed three briefs on May 28, 2013, July 25, 2013 and September 9, 2013. We expect to present our legal arguments on other inter-company transactions that are subject to litigation to the U.S. Tax Court during 2014.

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.

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 have issued PRSUs to a certain group of senior executives with vesting that is contingent on both market performance and continued service ("market-based PRSUs"). For market-based PRSUs issued in 2012 and 2013, 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.

Table of Contents

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

(In thousands)	Three Months Ended		Nine Months Ended	
	September 27, 2013	September 28, 2012	September 27, 2013	September 28, 2012
Cost of sales	\$515	\$492	\$1,460	\$1,416
Research and development expense	11,324	11,065	32,125	31,393
Selling, general, and administrative expense	13,898	13,033	39,426	37,981
Pre-tax stock-based compensation expense	25,737	24,590	73,011	70,790
Less: income tax benefit	(6,720)	(6,606)	(18,908)	(18,412)
Net stock-based compensation expense	\$19,017	\$17,984	\$54,103	\$52,378

No stock-based compensation was capitalized during any period presented above. As of September 27, 2013, unrecognized stock-based compensation cost related to outstanding unvested stock options, RSUs, market-based PRSUs and Employee Stock Purchase Plan ("ESPP") shares that are expected to vest was approximately \$174.3 million. This unrecognized stock-based compensation cost is expected to be recognized over a weighted average period of approximately 2.5 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.

The assumptions used to estimate the fair value of ESPP and RSUs were as follows:

	Three Months Ended		Nine Months Ended			
	September 27, 2013	September 28, 2012	September 27, 2013	September 28, 2012		
ESPP purchase rights:						
Expected term (in years)	—	—	1.0	1.0		
Expected stock price volatility	—	—	31.2	% 39.1	%	%
Risk-free interest rate	—	—	0.1	% 0.2	%	%
Dividend yield	—	—	1.3	% 0.9	%	%
Weighted-average estimated fair value	\$—	\$—	\$8.41	\$10.54		
RSUs:						
Risk-free interest rate	0.5	% 0.3	% 0.3	% 0.3	%	%
Dividend yield	1.7	% 1.1	% 1.2	% 1.0	%	%
Weighted-average estimated fair value	\$33.41	\$35.68	\$32.20	\$33.52		

On May 6, 2013 and July 30, 2012, we granted 262,647 and 66,489 market-based PRSUs, respectively, to a certain group of senior executives. As of September 27, 2013, the majority of these market-based PRSUs are still outstanding, and no market-based PRSUs have vested. For market-based PRSU grants made on May 6, 2013 and July 30, 2012, the weighted average grant date fair value was \$33.03 and \$41.18, respectively.

Table of Contents

A summary of activity for our RSUs and PRSUs for the nine months ended September 27, 2013 and information regarding RSUs and PRSUs outstanding and expected to vest as of September 27, 2013 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, 2012	6,960	\$34.03		
Grants	2,663	\$33.20		
Vested	(2,359 )	\$31.05		
Forfeited	(426 )	\$34.97		
Outstanding, September 27, 2013	6,838	\$34.68	1.6	\$252,746
Vested and expected to vest, September 27, 2013	5,991	\$34.68	1.5	\$221,439

Aggregate intrinsic value represents the closing price per share of our stock on September 27, 2013, multiplied by (1) the number of RSUs and market-based PRSUs outstanding or vested and expected to vest as of September 27, 2013.

A summary of stock option activity for the nine months ended September 27, 2013 and information regarding stock options outstanding, exercisable, and vested and expected to vest as of September 27, 2013 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, 2012	5,163	\$25.81		
Grants	72	\$14.79		
Exercises	(1,378 )	\$20.51		
Forfeited/Cancelled/Expired	(8 )	\$25.65		
Outstanding, September 27, 2013	3,849	\$27.51	4.3	\$40,748
Exercisable, September 27, 2013	2,820	\$24.50	2.8	\$37,260
Vested and expected to vest, September 27, 2013	3,736	\$27.27	4.1	\$40,385

For those stock options with an exercise price below the closing price per share on September 27, 2013, aggregate intrinsic value represents the difference between the exercise price and the closing price per share of our common stock on September 27, 2013, multiplied by the number of stock options outstanding, exercisable, or vested and expected to vest as of September 27, 2013.

For the three and nine months ended September 27, 2013, 0.5 million and 1.4 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 27, 2013 was \$7.9 million and \$19.9 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 as a result of stock option exercises during the three and nine months ended September 27, 2013 was \$11.5 million and \$28.3 million, respectively.

As of September 27, 2013, our 2005 Equity Incentive Plan had a total of 28.3 million shares reserved for future issuance, of which 18.6 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

Table of Contents

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 390,077 shares of common stock under the ESPP at a price of \$26.87 during the nine months ended September 27, 2013, and 304,468 shares of common stock under the ESPP at a price of \$30.23 during the nine months ended September 28, 2012. As of September 27, 2013, 3.5 million shares were available for future issuance under the ESPP.

Note 16 — Stockholders' Equity

We repurchase shares under our stock purchase 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. On August 28, 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 authorization, there is a total of 233.0 million shares authorized for repurchase with approximately 41.1 million shares remaining for further repurchases under our stock repurchase program as of September 27, 2013. Since the inception of the stock purchase program through September 27, 2013, we have repurchased a total of 191.9 million shares of our common stock at an aggregate cost of \$4.1 billion.

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. During the nine months ended September 28, 2012, we repurchased 5.3 million shares of our common stock for a total of \$179.1 million under our stock repurchase program at an average price per share of \$33.72. 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 in our consolidated balance sheets.

Note 17 — Income Taxes

We file income tax returns with the IRS and in various U.S. states and foreign jurisdictions. In 2008, the IRS completed field examinations of our tax returns for 2002 through 2004 and proposed an additional tax liability of \$34.5 million, excluding interest. We contested this proposed additional tax liability in the IRS Office of Appeals and resolved several of the issues. On December 8, 2011, the IRS issued a Statutory Notice of Deficiency, revising the assessment of additional taxes for 2002 through 2004 to \$19.8 million, excluding interest. The Notice relates primarily to inter-company adjustments between related companies, computational adjustments to the R&D credit and reductions to the benefits of tax credit carrybacks and carryforwards to subsequent years. On March 6, 2012, we filed a petition in the U.S. Tax Court to request a redetermination of the tax deficiency regarding certain IRS adjustments for 2004. 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 May 8, 2012, the IRS filed its petition response in the U.S. Tax Court, in which the IRS conceded the R&D credit adjustment for 2004. In June 2012, the federal statute of limitations for the 2002 and 2003 tax years expired.

In addition, in 2010 the IRS completed field examinations for 2005 through 2007 and proposed an additional tax liability of \$34.2 million, excluding interest. On January 23, 2012, the IRS issued a Statutory Notice of Deficiency, revising the assessment of additional taxes for 2005 through 2007 to \$21.4 million, excluding interest. The Notice relates primarily to inter-company adjustments between related companies and reductions to the benefits of tax credit carrybacks and carryforwards to subsequent years. On April 20, 2012, we filed a petition in the U.S. Tax Court to request a redetermination of the tax deficiencies regarding certain IRS adjustments for 2005 through 2007. On June 21, 2012, the IRS filed its petition response in the U.S. Tax Court.

On August 15, 2012, the case for the 2004 tax year was combined with that for the 2005 through 2007 tax years. A judge has been assigned to our case and a motion for continuance has been granted. 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 January 31, 2013, the IRS conceded an adjustment for certain inter-company transactions in our litigation regarding the 2004 through 2007 tax years. The concession only impacted our 2007 tax year. Our other inter-company transactions continue to be subject to litigation for 2004 through 2007. As a result of this concession, we recognized a tax and interest benefit of \$6.8 million during the three months ended March 29, 2013 due to the release of certain tax reserves.

Altera and the IRS agreed to file motions for partial summary judgment regarding one of the remaining inter-company transactions subject to litigation for the 2004 through 2007 tax years. As part of the partial summary judgment process, both sides filed three briefs on May 28, 2013, July 25, 2013 and September 9, 2013. We expect to present our legal arguments on other inter-company transactions that are subject to litigation to the U.S. Tax Court during 2014.



Table of Contents

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 27, 2013 was 6.7% compared to 11.3% for the three months ended September 28, 2012. The net change in our effective tax rate was primarily due to higher one-time tax benefits in 2013 compared to 2012, and the reinstatement of the U.S. federal research and development tax credit in 2013 which had expired in 2011. During the three months ended September 27, 2013, 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 million of tax accrued on foreign dividends.

Our effective tax rate for the nine months ended September 27, 2013 was 4.4%, compared with 4.0% for the nine months ended September 28, 2012. The net change in our effective tax rate was primarily due to higher one-time tax benefits in 2012 compared to 2013, partially offset by the reinstatement of the U.S. federal research and development tax credit in 2013 which had expired in 2011. 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 federal research and development 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 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 million of tax accrued on foreign dividends.

As of September 27, 2013, we had total gross unrecognized tax benefits of \$268.7 million which, if recognized, would impact our effective tax rate. On December 31, 2012, we had total gross unrecognized tax benefits of \$275.9 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 \$47.7 million and \$48.8 million for the payment of interest and penalties related to uncertain tax positions as of September 27, 2013 and December 31, 2012, respectively.

In connection with one of our acquisitions during the nine months ended September 27, 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 27, 2013, there were 122 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 \$78.7 million and \$77.4 million as of September 27, 2013 and December 31, 2012, respectively.

Investment earnings from the NQDC Plan are recorded as Gain on deferred compensation plan securities in our consolidated statements of comprehensive income. The investment gain also represents an increase in the future payout to participants and is recorded as Compensation expense — deferred compensation plan in our consolidated statements of comprehensive income.

Table of Contents

Compensation expense associated with our NQDC Plan obligations is offset by the gain from the related securities. The net effect of investment earnings and related compensation expense has no impact on our income before income taxes, net income or cash balances.

The following tables summarize the fair value of our deferred compensation plan assets by significant investment category:

(In thousands)	September 27, 2013	December 31, 2012
Deferred compensation plan assets: (1)		
Level 1:		
Restricted cash equivalents	\$20,270	\$17,116
Equity securities	26,210	29,902
Mutual funds	30,048	27,073
Subtotal	76,528	74,091
Level 2:		
Fixed income securities	2,144	3,346
Total	\$78,672	\$77,437

(1) Included in Deferred compensation plan - marketable securities and Deferred compensation plan - restricted cash equivalents in the accompanying consolidated balance sheets as of September 27, 2013 and December 31, 2012.

#### Note 19 — Declaration of Dividend Subsequent to September 27, 2013

On October 21, 2013, our board of directors declared a quarterly cash dividend of \$0.15 per common share, payable on December 2, 2013 to stockholders of record on November 12, 2013.

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

The following Management's Discussion and Analysis of Financial Condition and Results of Operations, as well as information contained in the risk factors described in 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," "plan," or other similar. 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” in our Annual Report on Form 10-K for the year ended December 31, 2012.

Table of Contents

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, 2012.

RESULTS OF OPERATIONS

Sales Overview

We design, manufacture, and market high-performance, high-density programmable logic devices, or PLDs; HardCopy® ASIC devices; PowerSoCs; pre-defined software design building blocks known as intellectual property cores, or IP cores; and associated development tools.

Our net sales of \$445.9 million for the three months ended September 27, 2013, decreased by \$49.1 million, or 10%, from our net sales of \$495.0 million for the three months ended September 28, 2012. Our net sales of \$1.28 billion for the nine months ended September 27, 2013, decreased by \$65.4 million, or 5%, from our net sales of \$1.34 billion for the nine months ended September 28, 2012. The decrease in net sales for both the three and nine-month periods was mainly due to a typical decline in Mature and Other Products coupled with a moderate decline in Mainstream Products as our new technologies are being adopted. Sales of New Products had strong growth in both the three and nine-month periods as we continue to experience growth in our 28-nm and 40-nm products. Net sales declined in the Telecom & Wireless and Other vertical markets, partially offset by a slight increase in the Industrial Automation, Military and Automotive vertical market for both periods. We experienced declines in all geographies with the exception of Japan, which exhibited modest growth for the three-month period ended September 27, 2013 from the three month period ended September 28, 2012. We experienced a decrease in net sales in the Americas and Asia Pacific, offset by growth in EMEA and Japan for the nine-month period ended September 27, 2013 from the nine-month period ended September 28, 2012.

The net sales of FPGAs and CPLDs as a percentage of total net sales for both the three and nine-month periods ended September 27, 2013 remained consistent with the prior year.

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 Stratix® V, Stratix IV, Arria® V, Arria II, Cyclone® V, Cyclone IV, 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.

Table of Contents

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 27, 2013	September 28, 2012	June 28, 2013			September 27, 2013	September 28, 2012		
New	44	% 31	% 41	% 27	% 16	% 41	% 29	% 33	%
Mainstream	26	% 32	% 28	% (25)	% 0	% 28	% 31	% (15)	%
Mature and Other	30	% 37	% 31	% (28)	% (1)	% 31	% 40	% (25)	%
Net Sales	100	% 100	% 100	% (10)	% 6	% 100	% 100	% (5)	%

## 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 27, 2013	September 28, 2012	June 28, 2013			September 27, 2013	September 28, 2012		
Telecom & Wireless	41	% 45	% 42	% (18)	% 3	% 41	% 44	% (10)	%
Industrial Automation, Military & Automotive	23	% 20	% 22	% 1	% 11	% 22	% 21	% 2	%
Networking, Computer & Storage	19	% 17	% 18	% 0	% 13	% 19	% 17	% 2	%
Other	17	% 18	% 18	% (12)	% (1)	% 18	% 18	% (7)	%
Net Sales	100	% 100	% 100	% (10)	% 6	% 100	% 100	% (5)	%

## Sales of FPGAs and CPLDs

Our PLDs consist of field-programmable gate arrays, or FPGAs, and complex programmable logic devices, or CPLDs. FPGAs consist of our Stratix, Cyclone, Arria, APEX, FLEX and ACEX 1K, as well as our Excalibur and Mercury families. CPLDs consist of our MAX and Classic families. Other Products consist of our Enpirion PowerSoCs, HardCopy ASIC devices and other masked programmed logic devices, configuration devices, software and other tools and IP cores.

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 27, 2013	September 28, 2012	June 28, 2013			September 27, 2013	September 28, 2012	

Edgar Filing: ALTERA CORP - Form 10-Q

FPGA	82	% 82	% 83	% (11 )	% 4	% 83	% 83	% (5 )	%
CPLD	9	% 9	% 9	% (3 )	% 12	% 9	% 9	% (8 )	%
Other Products	9	% 9	% 8	% (7 )	% 13	% 8	% 8	% 4	%
Net Sales	100	% 100	% 100	% (10 )	% 6	% 100	% 100	% (5 )	%

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.



Table of Contents

Net sales by geography were as follows:

	Three Months Ended			Year-Over-Year Change	Sequential Change	Nine Months Ended		Year-Over-Year Change
	September 27, 2013	September 28, 2012	June 28, 2013			September 27, 2013	September 28, 2012	
Americas	18	% 19	% 17	% (11)	% 15	% 18	% 18	% (2)
Asia Pacific	39	% 43	% 39	% (18)	% 6	% 39	% 44	% (15)
EMEA	28	% 25	% 28	% (1)	% 5	% 28	% 24	% 9
Japan	15	% 13	% 16	% 2	% (3)	% 15	% 14	% 1
Net Sales	100	% 100	% 100	% (10)	% 6	% 100	% 100	% (5)

### 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. 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 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. 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. 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 65% to 80% 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. Total price concessions earned by distributors were \$3.4 billion and \$3.1 billion for the nine months ended September 27, 2013 and September 28, 2012, 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 \$57.5 million and \$61.5 million for the nine months ended September 27, 2013 and September 28, 2012, respectively.

### Gross Margin

	Three Months Ended			Nine Months Ended		
	September 27, 2013	September 28, 2012	June 28, 2013	September 27, 2013	September 28, 2012	
Gross Margin Percentage	68.3	% 69.3	% 68.0	% 68.5	% 69.6	%

Gross margin rates are heavily influenced by both vertical market mix and the timing of material cost improvements. While these variables will continue to fluctuate on a quarterly basis, our gross margin target over the long term is

67%. We believe that the 67% 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 27, 2013 decreased by 1.0 point compared with the same period of 2012. Our gross margin percentage for the nine months ended September 27, 2013 decreased by 1.1 points compared with the same period of 2012. The decrease in both the three and nine-month periods is primarily attributable to an unfavorable mix within vertical markets and unfavorable customer product mix, when compared with the same periods of 2012.

Table of Contents

## 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, our 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 27, 2013	September 28, 2012	June 28, 2013			September 27, 2013	September 28, 2012		
Research and Development Expense	\$95.3	\$91.4	\$95.5	4	% 0	% \$278.5	\$265.6	5	%
Percentage of Net Sales	21.4	% 18.5	% 22.6	%		21.8	% 19.8	%	

Research and development expense for the three months ended September 27, 2013 increased by \$3.9 million, or 4%, compared with the three months ended September 28, 2012. The increase was primarily attributable to a \$7.3 million increase in personnel-related costs due to an increase in the number of employees to support product development and from our recent acquisitions, a \$1.5 million increase in depreciation expense, a \$1.2 million increase in professional services and a \$1.0 million increase in rental expenses in connection with our product development activities. These increases were partially offset by a \$6.5 million decrease related to timing of external costs for product development.

Research and development expense for the nine months ended September 27, 2013 increased by \$12.9 million, or 5%, compared with the nine months ended September 28, 2012. The increase was primarily attributable to a \$22.5 million increase in personnel-related costs due to an increase in the number of employees to support product development and from our recent acquisitions, a \$5.6 million increase in depreciation expense, and a \$3.1 million increase in professional services in connection with our product development activities. These increases were partially offset by a \$19.3 million decrease related to timing of external costs for product development.

## 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 27, 2013	September 28, 2012	June 28, 2013			September 27, 2013	September 28, 2012		
Selling, General and	\$78.9	\$74.2	\$77.9	6	% 1	% \$235.4	\$215.8	9	%

Administrative  
Expense

Percentage of Net Sales	17.7	%	15.0	%	18.5	%	18.4	%	16.1	%
-------------------------	------	---	------	---	------	---	------	---	------	---

Selling, general, and administrative expense for the three months ended September 27, 2013 increased by \$4.7 million, or 6%, compared with the three months ended September 28, 2012. The increase was primarily attributable to a \$3.0 million increase in personnel-related costs due to an increase in the number of employees to support the business, a \$2.1 million increase in professional services, and a \$0.9 million increase in stock-based compensation expense.

Selling, general, and administrative expense for the nine months ended September 27, 2013 increased by \$19.6 million, or 9%, compared with the nine months ended September 28, 2012. The increase was primarily attributable to a \$10.2 million increase in personnel-related costs due to an increase in the number of employees to support the business, a \$3.4 million increase in professional services, a non-recurring \$3.0 million increase in local, non-income taxes, a \$1.8 million increase in depreciation expense, and a \$1.4 million increase in stock-based compensation expense.

## Table of Contents

### Amortization of Acquisition-Related Intangible Assets

Amortization of acquisition-related intangible assets increased by \$1.6 million and \$2.3 million for the three and nine months ended September 27, 2013, respectively, when compared with the same periods in 2012, 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 losses earned by the NQDC Plan are recorded as Gain on deferred compensation plan securities in our consolidated statements of comprehensive income. 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. We reported a net investment gain of \$3.3 million and \$6.7 million on NQDC Plan assets for the three and nine months ended September 28, 2012. 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 expense — deferred compensation plan in our consolidated statements of comprehensive income. The compensation expense associated with our deferred compensation plan obligations is offset by (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 investments in high-quality fixed income securities, decreased by \$0.6 million and increased by \$0.7 million for the three and nine months ended September 27, 2013, respectively, when compared with the same periods in 2012, primarily due to the change in composition of investments in our portfolio.

### Interest Expense

Interest expense increased by \$3.0 million for the nine months ended September 27, 2013, when compared to the same period in the prior year, primarily due to the long-term debt issued in the second quarter of 2012, which has a higher effective interest rate than the former credit facility. The increase for the nine months ended September 27, 2013 also includes a one-time interest charge on debt assumed in connection with our recent acquisition activity in the second quarter of 2013. Our interest expense was relatively flat for the three-month period ended September 27, 2013, compared to the same period in 2012.

### 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 27, 2013 was 6.7% compared to 11.3% for the three months ended September 28, 2012. The net change in our effective tax rate was primarily due to higher one-time tax benefits in 2013 compared to 2012, and the reinstatement of the U.S. federal research and development tax credit in 2013 which had expired in 2011. During the three months ended September 27, 2013, 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 million of tax accrued on foreign dividends.

Our effective tax rate for the nine months ended September 27, 2013 was 4.4%, compared with 4.0% for the nine months ended September 28, 2012. The net change in our effective tax rate was primarily due to higher one-time tax benefits in 2012 compared to 2013, partially offset by the reinstatement of the U.S. federal research and development tax credit in 2013 which had expired in 2011. 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 federal research and development 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 the related interest, \$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 related interest, which was substantially offset by \$27 million of tax accrued on foreign dividends.

## Table of Contents

As of September 27, 2013, we had total gross unrecognized tax benefits of \$268.7 million which, if recognized, would impact our effective tax rate. On December 31, 2012, we had total gross unrecognized tax benefits of \$275.9 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 \$47.7 million and \$48.8 million for the payment of interest and penalties related to uncertain tax positions as of September 27, 2013 and December 31, 2012, respectively.

In connection with one of our acquisitions during the nine months ended September 27, 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.

## 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 May 2012, we issued 1.75% senior notes that will mature on May 15, 2017 (the "Notes") in the aggregate principal amount of \$500 million. We used the net proceeds to repay our former credit facility. In June 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 27, 2013, we had no borrowings under the Facility. As such, the \$250 million available under the Facility represents a source of liquidity.

We currently use cash to fund 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.

### Share Repurchases and Dividends

On August 28, 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 authorization, there is a total of 233.0 million shares authorized for repurchase with approximately 41.1 million shares remaining for further repurchases under our stock repurchase program as of September 27, 2013. Since the inception of the stock purchase program through September 27, 2013, we have repurchased a total of 191.9 million shares of our common stock for an aggregate cost of \$(4.1) billion. Management believes that this authorization is sufficient to support the company's share repurchase objectives through mid-2015.

During the nine months ended September 27, 2013, we paid \$112.2 million in cash dividends to stockholders, representing \$0.15 per common share for \$48.2 million in the third quarter of 2013 and \$0.10 per common share for an aggregate of \$64.0 million for the first and second quarters of 2013. On October 21, 2013, our board of directors declared a cash dividend of \$0.15 per share for the fourth quarter of 2013.

### 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.

#### Cash Flows

Our cash and cash equivalents balance during the nine months ended September 27, 2013 increased by \$79.5 million. The change in cash and cash equivalents was as follows:

27

---



Table of Contents

(In thousands)	Nine Months Ended	
	September 27, 2013	September 28, 2012
Net cash provided by operating activities	\$459,449	\$460,505
Net cash used in investing activities	(203,666 )	(742,513 )
Net cash used in financing activities	(176,325 )	(240,096 )
Net increase (decrease) in cash and cash equivalents	\$79,458	\$(522,104 )

## Operating Activities

For the nine months ended September 27, 2013, our operating activities provided \$459.4 million in cash, primarily attributable to net income of \$341.1 million, adjusted for non-cash stock-based compensation expense of \$74.3 million (net of related tax effects), depreciation and amortization (including amortization of acquisition-related intangible assets) of \$37.2 million, net amortization of investments of \$2.6 million and a deferred income tax benefit of \$5.6 million. The net change in working capital accounts (excluding cash and cash equivalents and effects of acquisitions) was primarily due to a \$111.2 million increase in Accounts receivable, net, a \$2.5 million increase in Inventories, a \$29.5 million decrease in Other assets, a \$12.5 million increase in Accounts payable and other liabilities, a \$96.0 million increase in Deferred income and allowances on sales to distributors, and an \$8.8 million decrease in Income taxes payable.

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 \$111.2 million increase in Accounts receivable, net, and the \$96.0 million increase in Deferred income and allowances on sales to distributors, principally relate to increased gross billings to distributors near the end of the period.

The \$2.5 million increase in Inventories is attributable to an increase in purchases to support new products near the end of the period.

The \$29.5 million decrease in Other assets primarily resulted from a decrease in prepaid income taxes and other prepaid items.

The \$12.5 million increase in Accounts payable and other liabilities is attributable to an increase in inventory purchases primarily for new products, and an increase in accrued compensation partially resulting from our recent acquisitions. These items were partially offset by an increase in vendor payments and various other accrued items as a result of timing.

The \$8.8 million decrease in Income taxes payable is primarily related to the reversal of uncertain tax positions for the expiration of foreign and domestic statutes of limitation, changes in estimates for certain foreign jurisdictions, and the

benefits resulting from the extension of federal research and development credits through December 31, 2013, offset by the additional accrued tax liabilities for foreign jurisdictions and for uncertain tax positions.

#### Investing Activities

Cash used in investing activities in the nine months ended September 27, 2013, primarily consisted of purchases of available for sale securities of \$258.8 million, acquisitions of \$145.3 million (net of cash acquired), purchase of other investments of \$2.1 million and purchases of property and equipment of \$31.2 million, partially offset by proceeds from sales and maturities of available-for-sale securities of \$228.3 million and proceeds from sales of deferred compensation plan securities, net of \$5.5 million.

## Table of Contents

### Financing Activities

Cash used in financing activities in the nine months ended September 27, 2013, primarily consisted of cash dividend payments of \$112.2 million, repurchases of common stock of \$60.3 million, the payment of debt assumed from acquisitions of \$22.0 million, and minimum statutory withholding for vested restricted stock units of \$24.8 million. These items were partially offset by proceeds of \$38.7 million from the issuance of common stock to employees through our employee stock plans and the excess tax benefit from stock-based compensation of \$4.2 million.

Our dividend policy could be impacted in the future by, among other items, future changes in our cash flows from operations and our capital spending needs such as those relating to research and development, investments and acquisitions, common stock repurchases, and other strategic investments.

### 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 27, 2013, we had approximately \$132.1 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 27, 2013, we had \$3.5 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 2021. There have been no significant changes to our operating lease obligations since December 31, 2012.

In addition to these lease and purchase obligations, we enter into, in the normal course of business, 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 27, 2013, we had total gross unrecognized tax benefits of \$268.7 million. Due to the uncertainty with respect to the timing of future cash flows associated with our unrecognized tax benefits, as of September 27, 2013, 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 27, 2013, 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 21, 2013, our board of directors declared a quarterly cash dividend of \$0.15 per common share, payable on December 2, 2013 to stockholders of record on November 12, 2013.

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.

Table of Contents

ITEM 3: Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Risk

Our exposure to interest rate risk relates primarily to our investment portfolio, which consists of fixed income securities with a fair value of approximately \$889.9 million as of September 27, 2013. Our primary aim with our investment portfolio is to invest available cash while preserving principal and meeting liquidity needs. Our investment portfolio includes U.S. and foreign government and agency securities, corporate bonds, commercial paper, and municipal bonds. In accordance with our investment policy, we place investments with high credit quality issuers and limit the amount of credit exposure to any one issuer. These securities are subject to interest rate risk and will decrease in value if market interest rates increase. A hypothetical 100 basis-point (one percentage point) increase or decrease in interest rates compared to rates at December 31, 2012 would have affected the fair value of our investment portfolio by approximately \$21.1 million.

Equity Price Risk

We are exposed to equity price risk inherent in the marketable equity securities held in our investment portfolio and our Non-Qualified Deferred Compensation Plan. A hypothetical ten percent adverse change in the stock prices of these equity securities would not result in a material impact on our consolidated financial position, operating results or cash flows.

Foreign Currency Risk

We have international operations and incur expenditures in currencies other than U.S. dollars. To date, our exposure to exchange rate volatility resulting from foreign currency transaction gains and losses and remeasurement of local currency assets and liabilities into U.S. dollars has been insignificant. If foreign currency rates were to fluctuate by ten percent from rates in effect at September 27, 2013, the resulting transaction gains or losses and the effects of remeasurement would not materially affect our consolidated financial position, operating results or cash flows.

Table of Contents

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, 2012. 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, 2012.

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, 2012 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.

Table of Contents

## 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 27, 2013, we had repurchased 191.9 million shares for an aggregate cost of \$4.1 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 27, 2013, we repurchased shares of our common stock as follows:

(Shares are presented in thousands)

Period	Total Number of Shares Purchased <sup>(1)</sup>	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs <sup>(2)</sup>
6/29/2013-7/26/2013	161	\$ 32.93	161	41,139
	161		161	

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

(2) An additional 30 million shares were approved for repurchase by the board of directors in August 2013.

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.



Table of Contents

## EXHIBIT INDEX

Exhibit No.	Description	Incorporated by Reference	
		Form	File Number Filing Date
#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		
##32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002		
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		

---

#Filed herewith

##Furnished herewith

Table of Contents

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)

Table of Contents

EXHIBIT INDEX

Exhibit No.	Description	Incorporated by Reference	
		Form	File Number Filing Date
#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		
##32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002		
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		

---

#Filed herewith

##Furnished herewith