

Covey Michael Sean Merrill  
 Form 5  
 October 11, 2017

**FORM 5**

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
 Washington, D.C. 20549**

OMB APPROVAL

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 Form 3 Holdings Reported Form 4 Transactions Reported

**ANNUAL STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES**

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

1. Name and Address of Reporting Person \*  
 Covey Michael Sean Merrill

(Last) (First) (Middle)

C/O FRANKLINCOVEY COMPANY, 2200 WEST PARKWAY BLVD.

(Street)

SALT LAKE CITY, UT 84119

(City) (State) (Zip)

2. Issuer Name and Ticker or Trading Symbol  
 FRANKLIN COVEY CO [FC]

3. Statement for Issuer's Fiscal Year Ended (Month/Day/Year)  
 08/31/2017

4. If Amendment, Date Original Filed (Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

Director  10% Owner  
 Officer (give title below)  Other (specify below)  
 SVP Innovations and Marketing

6. Individual or Joint/Group Reporting

(check applicable line)

Form Filed by One Reporting Person  
 Form Filed by More than One Reporting Person

**Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned**

1. Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)	4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)	5. Amount of Securities Beneficially Owned at end of Issuer's Fiscal Year (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Ownership (Instr. 4)
common shares	05/30/2017		G	5,000 D \$ 0	206,644	D	

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 2270 (9-02)

**Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned (e.g., puts, calls, warrants, options, convertible securities)**



September 30,  
2011

October 1,  
2010  
Net income

\$  
185,404

\$  
217,491

\$  
624,100

\$  
551,271

Unrealized holding losses on available-for-sale securities, net of tax

(190  
)

—

(190  
)

—

Comprehensive income

\$  
185,214

\$  
217,491

\$  
623,910

\$  
551,271

Explanation of Responses:

## Note 9 — 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 30, 2011	October 1, 2010	September 30, 2011	October 1, 2010
Basic:				
Net income	\$ 185,404	\$ 217,491	\$ 624,100	\$ 551,271
Basic weighted shares outstanding	321,745	309,766	322,012	304,267
Net income per share	\$0.58	\$0.70	\$ 1.94	\$ 1.81
Diluted:				
Net income	\$ 185,404	\$ 217,491	\$ 624,100	\$ 551,271
Weighted shares outstanding	321,745	309,766	322,012	304,267
Effect of dilutive securities:				
Stock options, ESPP, and restricted stock unit shares	5,299	7,303	6,252	6,100
Diluted weighted shares outstanding	327,044	317,069	328,264	310,367
Net income per share	\$0.57	\$0.69	\$ 1.90	\$ 1.78

In applying the treasury stock method, we excluded 2.7 million and 1.4 million stock option shares and restricted stock units for the three and nine months ended September 30, 2011, respectively, and 1.0 million and 4.7 million stock option shares for the three and nine months ended October 1, 2010, respectively, because their effect was anti-dilutive. While these shares have been anti-dilutive, they could be dilutive in the future.

## Note 10 — Credit Facility

Our total borrowings under our \$750 million unsecured revolving credit facility (the “Facility”) as of September 30, 2011 and December 31, 2010 were \$500 million. Borrowings under the Facility bear interest at either a Eurodollar rate (“LIBOR”) or a Prime rate, at our option, plus an applicable margin based upon certain financial ratios. The interest rate as of September 30, 2011 was LIBOR plus 0.27%. In addition, we pay a facility fee on the entire Facility. This facility fee varies with certain financial ratios and was 0.08% as of September 30, 2011. The principal amount of borrowings, together with accrued interest, is due on the maturity date in August 2012. As of September 30, 2011, \$250 million was available under the Facility.

The terms of the Facility require compliance with certain financial covenants that require us to maintain specified financial ratios related to interest coverage and financial leverage. As of September 30, 2011, we were in compliance with all such covenants.

## Note 11 — Commitments and Contingencies



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### 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 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 30, 2011, we had approximately \$116.9 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. As of September 30, 2011, we have entered into an operating lease in Austin, Texas and an agreement to sign an operating lease in Toronto, Canada, respectively, both with a term of 10 years and total lease payment commitments of \$36.9 million.

### Legal Proceedings

We are named as a party to a lawsuit concerning our historical stock option practices and related accounting and reporting.

In May and July 2006, we were notified that three shareholder derivative lawsuits had been filed in the Superior Court of the State of California, County of Santa Clara, by persons identifying themselves as Altera shareholders and purporting to act on behalf of Altera, naming Altera Corporation as a nominal defendant and naming some of our current and former officers and directors as defendants. On July 12, 2006, one of these derivative actions was voluntarily dismissed by the plaintiff shareholder. The remaining two derivative lawsuits pending in Santa Clara Superior Court were consolidated into a single action on September 5, 2006. Plaintiffs filed a second amended consolidated complaint on December 15, 2006. On January 30, 2007, Altera and the defendants filed a motion to stay this action pending resolution of the federal derivative action (discussed below). On February 11, 2009, one of the remaining derivative plaintiffs voluntarily dismissed his derivative claims and, on March 20, 2009, the other remaining derivative plaintiff filed a third amended complaint. In June 2009, Altera and the defendants demurred to the third amended complaint. After the court issued a tentative ruling in favor of Altera, the parties agreed to stay the

### Explanation of Responses:

action in order to allow plaintiff to serve a demand on Altera's board of directors. The plaintiff served the demand on November 4, 2009. In the first quarter of 2010, the board of directors completed its review of the demand and decided to reject plaintiff's demand. On June 1, 2010, the plaintiff filed a fourth amended complaint, alleging that the board of director's decision to reject plaintiff's demand was wrongful. On July 15, 2010, Altera demurred to the fourth amended complaint. In October 2010, the court dismissed plaintiff's fourth amended complaint and granted plaintiff leave to file a fifth amended complaint. On November 4, 2010, the plaintiff filed a fifth amended complaint, alleging that Altera's board of directors wrongfully refused his demand. On December 10, 2010, Altera, joined by the individual defendants, demurred to the fifth amended complaint. On March 23, 2011, the plaintiff entered into a stipulation agreeing to voluntarily dismiss the action with prejudice. On April 21, 2011, the court entered an order dismissing the action with prejudice and set a dismissal review hearing for June 24, 2011. The April 2011 order dismissing the action with prejudice was finalized at the June 2011 dismissal review hearing.

Plaintiff asserted claims against the individual defendants for breach of fiduciary duty, waste of corporate assets, unjust enrichment, violations of California Corporation Code section 25402, breach of fiduciary duty for insider selling and misappropriation of information, and deceit. Plaintiff's claims concerned the granting of stock options by Altera between 1994 and 2001 and the alleged filing of false and misleading financial statements between 1994 and 2006. All of these claims were

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asserted derivatively on behalf of Altera. Plaintiff sought, among other relief, an indeterminate amount of damages from the individual defendants and a judgment directing Altera to reform its corporate governance practices.

During the months of May, June, and July 2006, four other derivative lawsuits were filed by purported Altera shareholders, on behalf of Altera, in the United States District Court for the Northern District of California. On August 8, 2006, these actions were consolidated, and the plaintiffs filed a consolidated complaint on November 30, 2006. On September 15, 2008, the plaintiffs voluntarily agreed to dismiss the case. On September 18, 2008, the court entered an order dismissing the case.

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 alleging that Altera is infringing 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 have 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 has opposed the motions, which are still pending before the court. Because the case is at a very early stage, it is not possible for us to determine whether there is a reasonable possibility that a loss has been incurred nor can we estimate the range of potential loss.

On June 24, 2011, Altera filed an action in the United States District Court for the Northern District of California against LSI Corporation and Agere Systems, Inc. (collectively “LSI”). The action alleges that LSI infringes various patents owned by Altera and also seeks a declaratory judgment that Altera does not infringe various patents owned by LSI and/or Agere (the “LSI patents”) and that the LSI patents are invalid. In September 2011, LSI answered the complaint and asserted counterclaims of patent infringement against Altera. Because the case is at a very early stage, it is not possible for us to determine whether there is a reasonable possibility that a loss has been incurred nor can we estimate the range of potential loss.

Note 12 — Stock-Based Compensation

Our stock-based compensation plans include the 2005 Equity Incentive Plan (the “2005 Plan”) and the 1987 Employee Stock Purchase Plan (the “ESPP”).

2005 Plan

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 2005 Plan provides stock-based incentive compensation (“awards”) to both our eligible employees and non-employee directors. Awards that may be granted under the 2005 Plan 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 2005 Plan consist of stock options, RSUs and PRSUs. The majority of stock-based awards granted under the 2005 Plan vest over four years. Stock options granted under the 2005 Plan have a maximum contractual term of ten years. On May 10, 2011, our stockholders approved an amendment to the 2005 Plan to increase the shares reserved for future issuance by 10 million. As of September 30, 2011, the 2005 Plan had a total of 30.0 million shares reserved for future issuance, of which 19.4 million shares were available for future grants.



A summary of activity for our RSUs and PRSUs for the nine months ended September 30, 2011 and information regarding

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RSUs and PRSUs outstanding and expected to vest as of September 30, 2011 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, 2010	7,613	\$22.95		
Grants	3,403	\$42.43		
Vested	(2,569 )	\$21.87		
Forfeited	(363 )	\$27.11		
Outstanding, September 30, 2011	8,084	\$31.30	1.8	\$254,898
Vested and expected to vest, September 30, 2011	6,998	\$31.30	1.7	\$220,648

<sup>(1)</sup> Aggregate intrinsic value represents the closing price per share of our stock on September 30, 2011, multiplied by the number of RSUs and PRSUs outstanding or vested and expected to vest as of September 30, 2011.

A summary of stock option activity for the nine months ended September 30, 2011 and information regarding stock options outstanding, exercisable, and vested and expected to vest as of September 30, 2011 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, 2010	10,179	\$20.61		
Grants	806	\$42.37		
Exercises	(3,950 )	\$21.42		
Forfeited/Cancelled/Expired	(38 )	\$21.95		
Outstanding, September 30, 2011	6,997	\$22.68	3.8	\$70,651
Exercisable, September 30, 2011	5,981	\$20.28	2.9	\$67,312
Vested and expected to vest, September 30, 2011	6,856	\$22.33	3.7	\$70,411

<sup>(1)</sup> For those stock options with an exercise price below the closing price per share on September 30, 2011, aggregate intrinsic value represents the difference between the exercise price and the closing price per share of our common stock on September 30, 2011, multiplied by the number of stock options outstanding, exercisable, or vested and expected to vest as of September 30, 2011.

For the three and nine months ended September 30, 2011, 0.3 million and 3.9 million non-qualified stock option shares were exercised, respectively. The total intrinsic value of stock options exercised for the three and nine months ended September 30, 2011 was \$5.9 million and \$83.2 million, respectively. The aggregate intrinsic value represents the difference between the exercise price and the selling price received by option holders upon the exercise of stock options during the period. The total cash received from employees as a result of employee stock option exercises during the three and nine months ended September 30, 2011 was \$6.5 million and \$84.6 million, respectively.

## 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

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common stock on (1) the first day of the offering period, or (2) the last trading day of the purchase period. If the fair market value at the end of any purchase period is less than the fair market value at the beginning of the offering period, each participant is automatically withdrawn from the current offering period following the purchase of shares on the purchase date and is automatically re-enrolled in the immediately following offering period.

We sold 402,913 shares of common stock under the ESPP at a price of \$22.40 during the nine months ended September 30,

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2011, and 595,861 shares of common stock under the ESPP at a price of \$13.81 during the nine months ended October 1, 2010. On May 10, 2011, our stockholders approved an amendment to the ESPP to increase the shares reserved for future issuance by 1 million. As of September 30, 2011, 2.8 million shares were available for future issuance under the ESPP.

## VALUATION AND EXPENSE INFORMATION

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

	Three Months Ended		Nine Months Ended			
	September 30, 2011	October 1, 2010	September 30, 2011	October 1, 2010		
ESPP purchase rights:						
Expected term (in years)	—	—	0.8	0.7		
Expected stock price volatility	—	—	34.5	31.2	%	%
Risk-free interest rate	—	—	0.2	0.3	%	%
Dividend yield	—	—	0.5	0.8	%	%
Weighted-average estimated fair value	—	—	\$12.88	\$6.56		
RSUs and PRSUs:						
Risk-free interest rate	0.5	0.7	0.6	0.8	%	%
Dividend yield	0.8	0.9	0.7	0.9	%	%
Weighted-average estimated fair value	\$41.50	\$27.33	\$41.71	\$26.32		

In addition, we apply an expected forfeiture rate when amortizing stock-based compensation expense. Our stock-based compensation expense included in the consolidated statements of income for the three and nine months ended September 30, 2011 and October 1, 2010 was as follows:

(In thousands)	Three Months Ended		Nine Months Ended	
	September 30, 2011	October 1, 2010	September 30, 2011	October 1, 2010
Cost of sales	\$450	\$303	\$1,200	\$897
Research and development	9,923	6,666	26,393	19,721
Selling, general, and administrative	12,178	8,180	32,390	24,280
Pre-tax stock-based compensation expense	22,551	15,149	59,983	44,898
Less: income tax benefit	(5,907)	(4,330)	(16,210)	(13,045)
Net stock-based compensation expense	\$16,644	\$10,819	\$43,773	\$31,853

No stock-based compensation was capitalized during any period presented above. As of September 30, 2011, unrecognized stock-based compensation cost related to outstanding unvested stock options, RSUs, PRSUs and ESPP shares that are expected to vest was approximately \$192.2 million. This unrecognized stock-based compensation cost is expected to be recognized over a weighted average period of approximately 2.7 years. To the extent the actual forfeiture rate is different from what we have anticipated, stock-based compensation related to these awards will be different from that presented.

Note 13 — Income Taxes

Explanation of Responses:

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 30, 2011 was 9.7%, compared with 8.7% for the three months ended October 1, 2010. During the three months ended October 1, 2010, our tax rate was favorably affected by adjustments to our liabilities for uncertain tax positions due primarily to the expiration of the statutes of limitations for certain foreign jurisdictions. The impact of similar adjustments during the three months ended September 30, 2011 was less significant, thereby causing an increase in our effective tax rate in 2011. The 2011 increase in our effective tax rate due to the

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above referenced factors was partially offset by the impact of proportionately higher 2011 earnings in foreign jurisdictions taxed at rates below the U.S. statutory tax rate and lower California tax liabilities due to a California law change effective in 2011.

Our effective tax rate for the nine months ended September 30, 2011 was 9.4%, compared with 8.7% for the nine months ended October 1, 2010. During the nine months ended October 1, 2010, our tax rate was favorably affected by adjustments to our liabilities for uncertain tax positions due primarily to the expiration of the statutes of limitations for certain foreign jurisdictions. The impact of similar adjustments during the nine months ended September 30, 2011 was less significant, thereby causing an increase in our effective tax rate in 2011. In addition, in 2010 we reversed \$11.7 million of liabilities for uncertain tax positions as a result of a 2010 U.S. court ruling which held that stock based compensation was not required to be included in certain transfer pricing arrangements between a U.S. company and its foreign subsidiary. The 2011 increase in our effective tax rate due to the above referenced factors was partially offset by the impact of proportionately higher 2011 earnings in foreign jurisdictions taxed at rates below the U.S. statutory tax rate and lower California tax liabilities due to a California law change effective in 2011.

We file income tax returns with the Internal Revenue Service (“IRS”) and in various states and foreign jurisdictions. The IRS has completed field examinations of our tax returns for 2002 through 2004 and has issued a notice of proposed adjustment seeking additional taxes of approximately \$34.5 million (excluding interest) for those years. We paid \$18.0 million to the IRS in 2008, representing a payment on bond for items associated with the IRS field examinations for 2002 through 2004. We are contesting through the administrative process the IRS claims regarding our 2002 through 2004 tax years. In addition, the IRS has completed field examinations of our tax returns for 2005 through 2007 and has issued a notice of proposed adjustment seeking additional taxes of approximately \$34.2 million (excluding interest) for those years. We are contesting through the administrative process the IRS claims regarding our 2005 through 2007 tax years. Other significant jurisdictions in which we are or may be subject to examination for fiscal years 2003 forward include China (including Hong Kong), Ireland, Malaysia, Japan, United Kingdom, and the state of California. As mentioned below, 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 federal, state and foreign 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 possible adjustments to the balance of gross unrecognized tax benefits. As of September 30, 2011 we had \$276.1 million of unrecognized tax benefits, that if recognized, would impact our effective tax rate. On December 31, 2010, we had \$243.3 million of unrecognized tax benefits. We are unable to make a reasonable estimate as to when cash settlements with the relevant taxing authorities will occur. We recognize interest and penalties related to uncertain tax positions in our income tax provision. We had accrued approximately \$53.1 million and \$50.0 million for the payment of interest and penalties related to uncertain tax positions as of September 30, 2011 and December 31, 2010, respectively.

#### Note 14 — 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 (“NQDC Plan”). Our Retirement Plans Committee administers the NQDC Plan. As of September 30, 2011, there were 123 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 \$69.0 million and \$74.2 million as of September 30, 2011 and December 31, 2010, respectively.

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

Note 15 — Fair Value of Financial Instruments

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The following tables summarize the valuation of our financial instruments as of September 30, 2011 and December 31, 2010:

(In thousands)	Total	Fair Value Measurements as of September 30, 2011	
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
Assets:			
Cash and cash equivalents:			
Money market funds	\$3,051,951	\$3,051,951	\$—
U.S. agency securities	19,320	—	19,320
Non-U.S. government securities	1,016	—	1,016
Corporate securities	28,939	13,998	14,941
Total <sup>(1)</sup>	\$3,101,226	\$3,065,949	\$35,277
Short-term marketable securities:			
U.S treasury securities	6,749	6,749	—
U.S agency securities	30,845	—	30,845
Non-US government securities	5,394	—	5,394
Corporate securities	18,411	—	18,411
Total	\$61,399	\$6,749	\$54,650
Long-term marketable securities:			
U.S agency securities	7,496	—	7,496
Non-US government securities	2,516	—	2,516
Municipal bond	752	—	752
Corporate securities	56,016	—	56,016
Total	\$66,780	\$—	\$66,780
Deferred compensation plan assets: <sup>(2)</sup>			
Restricted cash equivalents	18,157	18,157	—
Equity securities	21,589	21,589	—
Fixed income securities	4,010	—	4,010
Mutual funds	25,210	25,210	—
Total	\$68,966	\$64,956	\$4,010
Total	\$3,298,371	\$3,137,654	\$160,717





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(In thousands)	Total	Fair Value Measurements as of December 31, 2010	
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
Assets:			
Cash and cash equivalents <sup>(1)</sup>			
Money market funds	\$2,690,752	\$2,690,752	\$—
Deferred compensation plan assets <sup>(2)</sup>			
Restricted cash equivalents	19,817	19,817	—
Equity securities	22,235	22,235	—
Fixed income securities	5,062	—	5,062
Mutual funds	27,122	27,122	—
Total	\$2,764,988	\$2,759,926	\$5,062

(1) Included in Cash and cash equivalents in our consolidated balance sheet

(2) Included in Deferred compensation plan — marketable securities and Deferred compensation plan — restricted cash equivalents in our consolidated balance sheets.

#### Note 16 — Subsequent Event

On October 17, 2011, our board of directors declared a quarterly cash dividend of \$0.08 per common share, payable on December 1, 2011 to stockholders of record on November 10, 2011.

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### 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, 2010.

### 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 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, 2010.

### RESULTS OF OPERATIONS

#### Sales Overview

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

Our net sales of \$522.5 million for the three months ended September 30, 2011 decreased by \$5.0 million, or 1%, from our net sales of \$527.5 million for the three months ended October 1, 2010. The decrease was primarily due to customer reaction to the changing global macroeconomic conditions, which reduced demand across the industry. Our net sales of \$1,606.7 million for the nine months ended September 30, 2011 increased by \$207.7 million, or 15%, from our net sales of \$1,399.0 million for the nine months ended October 1, 2010. The increase was driven by a strong growth in sales, primarily during the first half of 2011, of our New and Mainstream Products. We continue to see evidence of a “tipping point” with respect to our opportunity to displace ASICs and ASSPs, as our newest products are several process generations ahead of mainstream ASICs and ASSPs, and the resulting FPGA cost advantage is accelerating ASIC and ASSP displacement.

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## 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 (including E, GX and GT), Arria® II (including GX and GZ), Cyclone® IV (including E and GX), MAX® V, and HardCopy IV devices.

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

Mature and Other Products include the Stratix II (and GX), Stratix (and GX), 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.

The product categories above have been constructed to approximate the relative life cycle stages of our products. During the three months ended April 1, 2011, we adjusted product categories to move certain products from New Products to Mainstream Products and certain products from Mainstream Products to Mature and Other Products. All prior period data has been adjusted to conform to the current classification. New Products are primarily comprised of our most advanced products. Customers typically select these products for their latest generation of electronic systems. Demand is generally driven by prototyping and production needs. Mainstream Products are somewhat older products that are generally no longer design-win vehicles. Demand is driven by customers' later stage production-based needs. Mature Products are yet older products with demand generated by the oldest customer systems still in production. This category also includes sales of software, intellectual property, and other miscellaneous devices.

Net sales by product category were as follows:

	Three Months Ended			Year-Over-Year Change	Sequential Change	Nine Months Ended		Year-Over-Year Change
	September 30, 2011	October 1, 2010	July 1, 2011			September 30, 2011	October 1, 2010	
New	27	% 13	% 18	% 112	% 43	% 20	% 10	% 148
Mainstream	32	% 31	% 36	% 3	% (15)	% 34	% 30	% 30
Mature and Other	41	% 56	% 46	% (29)	% (16)	% 46	% 60	% (14)
Net Sales	100	% 100	% 100	% (1)	% (5)	% 100	% 100	% 15



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## 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 30, 2011	October 1, 2010	July 1, 2011			September 30, 2011	October 1, 2010		
Telecom & Wireless	42	% 45	% 46	% (7)	)% (13)	% 43	% 42	% 17	%
Industrial Automation, Military & Automotive	22	% 22	% 22	% (2)	)% (7)	% 22	% 23	% 14	%
Networking, Computer & Storage	20	% 13	% 15	% 50	% 31	% 17	% 13	% 44	%
Other	16	% 20	% 17	% (21)	)% (11)	% 18	% 22	% (7)	)%
Net Sales	100	% 100	% 100	% (1)	)% (5)	% 100	% 100	% 15	%

## 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, MAX II, and Classic families. Other Products consist of our HardCopy series and other masked programmed logic devices, configuration devices, software and other tools and IP cores (collectively, "Other Products").

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

	Three Months Ended			Year-Over-Year Change	Sequential Change	Nine Months Ended		Year-Over-Year Change	
	September 30, 2011	October 1, 2010	July 1, 2011			September 30, 2011	October 1, 2010		
FPGA	82	% 82	% 80	% (1)	)% (3)	% 81	% 81	% 15	%
CPLD	9	% 11	% 10	% (20)	)% (16)	% 10	% 12	% (5)	)%
Other Products	9	% 7	% 10	% 35	% (10)	% 9	% 7	% 54	%
Net Sales	100	% 100	% 100	% (1)	)% (5)	% 100	% 100	% 15	%





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## Sales by Geography

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

Net sales by geography were as follows:

	Three Months Ended			Year-Over-Year Change	Sequential Change	Nine Months Ended		Year-Over-Year Change	
	September 30, 2011	October 1, 2010	July 1, 2011			September 30, 2011	October 1, 2010		
Americas	16	% 20	% 19	% (19)	)% (16)	)% 19	% 20	% 8	%
Asia Pacific	44	% 44	% 40	% (1)	)% 3	% 41	% 42	% 12	%
EMEA	25	% 21	% 27	% 17	% (10)	)% 26	% 23	% 30	%
Japan	15	% 15	% 14	% (1)	)% (3)	)% 14	% 15	% 9	%
Net Sales	100	% 100	% 100	% (1)	)% (5)	)% 100	% 100	% 15	%

## 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. 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. Total price concessions earned by distributors were \$3.0 billion and \$4.8 billion for the nine months ended September 30, 2011 and October 1, 2010, respectively. The 2011 decrease in price concessions results from proportionately higher sales to OEMs in 2011 and higher sales to distributors at prices reflecting negotiated discounted end customer prices. See Note 7 — Deferred Income and Allowances on Sales to Distributors to our consolidated financial statements. 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.

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 \$111.9 million and \$73.0 million for the nine months ended September 30, 2011 and October 1, 2010, respectively. The increase in returns when compared to the same period in the prior year was primarily driven by arrangements with certain distributors to re-balance inventory levels to support near-term end customer demand. See Note 7 — Deferred Income and Allowances on Sales to Distributors to our consolidated financial statements.



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## Gross Margin

	Three Months Ended			Nine Months Ended		
	September 30, 2011	October 1, 2010	July 1, 2011	September 30, 2011	October 1, 2010	
Gross Margin Percentage	68.0	% 70.1	% 70.9	% 70.5	% 71.0	%

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 level of balance between growth and profitability. Our gross margin percentage for the three months ended September 30, 2011 decreased by 2.1 points compared with the same period of 2010. The decrease resulted from an unfavorable vertical market mix, with increased sales in the Networking, Computer & Storage vertical market and a decrease in the Industrial Automation, Military & Automotive vertical market, when compared with the same period of 2010. Our gross margin percentage for the nine months ended September 30, 2011 decreased by 0.5 points compared to the same period of 2010. The decrease was primarily due to the change in the mix of revenue by vertical market.

Stock-based compensation expense included in Cost of sales during the three or nine months ended September 30, 2011 and October 1, 2010 did not have a significant impact on our gross margin.

## Research and Development Expense

Research and development expense includes costs for compensation and benefits (including stock-based compensation), development masks, prototype wafers, and depreciation and amortization. These expenditures are for the design of new PLD and ASIC families, 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 30, 2011	October 1, 2010	July 1, 2011			September 30, 2011	October 1, 2010		
Research and Development Expense	\$80.8	\$67.9	\$80.3	19	% 1	% \$235.4	\$197.9	19	%
Percentage of Net Sales	15.5	% 12.9	% 14.6	%		14.7	% 14.1	%	

Research and development expense for the three months ended September 30, 2011 increased by \$12.9 million, or 19%, when compared with the three months ended October 1, 2010. The increase was primarily attributable to the following factors: a \$6.8 million increase in personnel-related costs due to an increase in the number of employees, a \$3.3 million increase in stock-based compensation driven by an increase in our stock price, a \$2.4 million increase in spending on consulting and outside services to support several strategic initiatives, and a \$1.6 million increase in

spending on product development activities. These increases were partially offset by a \$3.6 million decrease in variable compensation expense.

Research and development expense for the nine months ended September 30, 2011 increased by \$37.5 million, or 19% when compared with the nine months ended October 1, 2010. The increase was primarily attributable to the following factors: an \$18.2 million increase in personnel-related costs due to an increase in the number of employees, a \$6.7 million increase in stock-based compensation driven by an increase in our stock price, a \$6.7 million increase in spending on consulting and outside services to support several strategic initiatives, and a \$7.2 million increase in spending on product development activities. These increases were partially offset by a \$5.0 million decrease in variable compensation expense.

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## Selling, General, and Administrative Expense

Selling, general, and administrative expense primarily includes compensation and benefits (including stock-based compensation) 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 30, 2011	October 1, 2010	July 1, 2011			September 30, 2011	October 1, 2010	
Selling, General and Administrative Expense	\$69.3	\$63.5	\$70.2	9 %	(1 )%	\$208.6	\$190.4	10 %
Percentage of Net Sales	13.3 %	12.0 %	12.8 %			13.0 %	13.6 %	

Selling, general, and administrative expense for the three months ended September 30, 2011 increased by \$5.8 million, or 9%, when compared with the three months ended October 1, 2010. The increase was primarily attributable to the following factors: a \$2.6 million increase in personnel-related costs to support the growth in our business and a \$4.0 million increase in stock-based compensation driven by an increase in our stock price. These increases were partially offset by a \$2.1 million decrease in variable compensation expense.

Selling, general, and administrative expense for the nine months ended September 30, 2011 increased by \$18.2 million, or 10%, when compared with the nine months ended October 1, 2010. The increase was primarily attributable to the following factors: an \$8.5 million increase in personnel-related costs to support the growth in our business, an \$8.1 million increase in stock-based compensation driven by an increase in our stock price and a \$4.7 million increase in professional services and consulting fees. These increases were partially offset by a \$3.1 million decrease in variable compensation expense.

## 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 (“NQDC Plan”). Since the inception of the NQDC Plan, we have not made any contributions to the NQDC Plan and we have no commitments to do so in the future. There are no NQDC Plan provisions that provide for any guarantees or minimum return on investments. Investment income or loss earned by the NQDC Plan is recorded as (Gain)/loss on deferred compensation plan securities in our consolidated statements of income. We reported net investment losses of \$6.6 million and \$4.9 million on NQDC Plan assets for the three and nine months ended September 30, 2011, respectively. We reported net investment gains of \$4.7 million and \$3.3 million on NQDC Plan assets for the three and nine months ended October 1, 2010. 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/(benefit) — deferred compensation plan in our consolidated statements of income. The compensation expense (benefit) associated with our deferred compensation plan obligations is offset by (gains) losses from 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 14 — Non-Qualified Deferred Compensation Plan to our consolidated financial statements for a detailed discussion of our 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 \$0.4 million for the three months ended September 30, 2011 when compared with the same period in 2010, primarily due to lower returns on our money market funds, partially offset by higher cash balances in 2011. Interest income and other increased by \$0.1 million for the nine months ended September 30, 2011 when compared to the same period in 2010, primarily due to higher cash balances in 2011.

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### Interest Expense

The year-over-year decrease in Interest expense resulted from a decrease in the borrowing costs on the outstanding balance under our credit facility. See Note 10 - Credit Facility to our consolidated financial statements.

### 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 30, 2011 was 9.7%, compared with 8.7% for the three months ended October 1, 2010. During the three months ended October 1, 2010, our tax rate was favorably affected by adjustments to our liabilities for uncertain tax positions due primarily to the expiration of the statutes of limitations for certain foreign jurisdictions. The impact of similar adjustments during the three months ended September 30, 2011 was less significant, thereby causing an increase in our effective tax rate in 2011. The 2011 increase in our effective tax rate due to the above referenced factors was partially offset by the impact of proportionately higher 2011 earnings in foreign jurisdictions taxed at rates below the U.S. statutory tax rate and lower California tax liabilities due to a California law change effective in 2011.

Our effective tax rate for the nine months ended September 30, 2011 was 9.4%, compared with 8.7% for the nine months ended October 1, 2010. During the nine months ended October 1, 2010, our tax rate was favorably affected by adjustments to our liabilities for uncertain tax positions due primarily to the expiration of the statutes of limitations for certain foreign jurisdictions. The impact of similar adjustments during the nine months ended September 30, 2011 was less significant, thereby causing an increase in our effective tax rate in 2011. In addition, in 2010 we reversed \$11.7 million of liabilities for uncertain tax positions as a result of a 2010 U.S. court ruling which held that stock based compensation was not required to be included in certain transfer pricing arrangements between a U.S. company and its foreign subsidiary. The 2011 increase in our effective tax rate due to the above referenced factors was partially offset by the impact of proportionately higher 2011 earnings in foreign jurisdictions taxed at rates below the U.S. statutory tax rate and lower California tax liabilities due to a California law change effective in 2011.

As of September 30, 2011 we had \$276.1 million of unrecognized tax benefits that, if recognized, would impact our effective tax rate. On December 31, 2010, we had \$243.3 million of unrecognized tax benefits. We are unable to make a reasonable estimate as to when cash settlements with the relevant taxing authorities will occur.

See Note 13 — Income Taxes to our consolidated financial statements for further discussion.

## FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

We derive our liquidity and capital resources primarily from our cash flows from operations. We have a \$750 million unsecured revolving credit facility (the "Facility"), which has been used primarily to fund common stock repurchases and to realign our capital structure. As of September 30, 2011, we had borrowed \$500 million under the Facility. The remaining capacity of \$250 million available under the Facility also represents a source of liquidity. The terms of the Facility require compliance with certain financial and non-financial covenants. Financial covenants require us to maintain certain financial ratios related to interest coverage and financial leverage. As of September 30, 2011, we were in compliance with all such covenants. See Note 10 — Credit Facility to our consolidated financial statements for further discussion of the Facility.

We use cash from operations and available amounts under the Facility to fund cash dividends, capital expenditures and for repurchases of our common stock. Based on past performance and current expectations, we believe that our current available sources of funds (including cash, cash equivalents, short-term investments and the Facility, plus anticipated cash generated from operations) will be adequate to finance our operations, cash dividends, capital expenditures and stock repurchases for at least the next year.





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Our cash and cash equivalents balance during the nine months ended September 30, 2011 increased by \$412.1 million. The change in cash and cash equivalents during the nine months ended September 30, 2011 and October 1, 2010 was as follows:

(In thousands)	Nine Months Ended	
	September 30, 2011	October 1, 2010
Net cash provided by operating activities	\$739,237	\$646,544
Net cash used in investing activities	(151,229 )	(4,945 )
Net cash (used in) provided by financing activities	(175,890 )	226,145
Net increase in cash and cash equivalents	\$412,118	\$867,744

## Operating Activities

For the nine months ended September 30, 2011, our operating activities provided \$739.2 million in cash, primarily attributable to net income of \$624.1 million, adjusted for non-cash stock-based compensation expense of \$63.1 million (net of related tax effects), depreciation and amortization of \$23.4 million, and deferred income tax benefit of \$9.5 million. The net change in working capital accounts (excluding cash and cash equivalents) was primarily due to a \$23.2 million increase in Accounts receivable, net, a \$40.0 million decrease in Accounts payable and other liabilities, a \$11.1 million increase in Deferred income and allowances on sales to distributors, partially offset by a \$12.5 million decrease in Inventories, and a \$48.0 million decrease in Other assets.

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, advances to distributors, 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 \$23.2 million increase in Accounts receivable, net, for the nine months ended September 30, 2011, principally related to increased gross billings to distributors and OEMs associated with increased demand for our products, when compared to the same period in 2010. The \$11.1 million increase in Deferred income and allowances on sales to distributors was primarily driven by a \$63.8 million decrease in advances to distributors offset by an increase in gross billings towards the end of the period. The repayments of advances by distributors primarily resulted from reduced inventory levels held under distributor funding arrangements. See Note 7 — Deferred Income and Allowances on Sales to Distributors to our consolidated financial statements.

The \$12.5 million decrease in Inventories was a result of proactive management of our inventory levels. The \$48.0 million decrease in Other assets primarily resulted from returns of advances from distributors and a decrease in prepaid amounts. The repayment of advances by distributors primarily resulted from changes in inventory levels held under distributor funding arrangements. The \$40.0 million decrease in Accounts payable and other liabilities was attributable to the decrease in inventory purchased as a result of the previously mentioned proactive management of our inventory levels and a decrease in the accrual for variable compensation. The \$30.1 million increase in Income tax

payable primarily resulted from higher tax liabilities due to increased earnings in 2011.

#### Investing Activities

Cash used in investing activities in the nine months ended September 30, 2011 primarily consisted of purchases of available for sale securities of \$130.1 million and purchases of equipment of \$23.2 million, partially offset by net sales of deferred compensation plan securities of \$0.3 million.

#### Financing Activities

Cash used in financing activities in the nine months ended September 30, 2011 primarily consisted of repurchases of common

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stock of \$197.0 million, cash dividend payments of \$64.3 million and minimum statutory withholding for vested restricted stock units of \$31.1 million. These items were partially offset by proceeds of \$93.6 million from the issuance of common stock to employees through our employee stock plans. 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 30, 2011, we had approximately \$116.9 million of outstanding purchase commitments to such subcontractors. We expect to receive and pay for these materials and services over the next six months.

We lease facilities under non-cancelable lease agreements expiring at various times through 2021. As of September 30, 2011, we have entered into an operating lease in Austin, Texas and an agreement to sign an operating lease in Toronto, Canada, respectively, both with a term of 10 years and a total lease payment commitment of \$36.9 million.

In addition to these lease and purchase obligations, in the normal course of business, we enter into a variety of agreements and financial commitments. It is not possible to predict the maximum potential amount of future payments under these agreements due to the conditional nature of our obligations and the unique facts and circumstances involved in each particular agreement. Historically, payments pursuant to such agreements have not been material. We believe that any future payments required pursuant to such agreements would not be significant to our consolidated financial position or operating results.

As of September 30, 2011, we had \$260.8 million of unrecognized tax benefits. Due to the uncertainty with respect to the timing of future cash flows associated with our unrecognized tax benefits as of September 30, 2011, we are unable to make a reasonably reliable estimate as to when cash settlements with the relevant taxing authorities will occur.

## OFF-BALANCE SHEET ARRANGEMENTS

As of September 30, 2011, we did not have any off-balance sheet arrangements, as defined in Item 303(a)(4)(ii) of SEC Regulation S-K.

## IMPACT OF FOREIGN CURRENCY AND INFLATION

We have international operations and incur expenditures in currencies other than U.S. dollars. For non-U.S. subsidiaries and branches, foreign currency transaction gains and losses and the impact of the remeasurement of local currency assets and liabilities into U.S. dollars for the three or nine month periods ended September 30, 2011 and October 1, 2010 was not significant. We do not enter into foreign exchange transactions for trading or speculative purposes.

## SUBSEQUENT EVENT

On October 17, 2011, our board of directors declared a quarterly cash dividend of \$0.08 per common share, payable on December 1, 2011 to stockholders of record on November 10, 2011.

RECENT ACCOUNTING PRONOUNCEMENTS

In May 2011, the Financial Accounting Standards Board ("FASB") issued amended guidance on fair value measurement and related disclosures. The new guidance clarified the concepts applicable for fair value measurement of non-financial assets and requires the disclosure of quantitative information about the unobservable inputs used in a fair value measurement. This guidance will be effective for reporting periods beginning after December 15, 2011, and will be applied prospectively. We are in the process of evaluating the financial and disclosure impact of this guidance. We do not anticipate a material impact on our consolidated financial statements as a result of the adoption of this amended guidance.

In June 2011, the FASB issued amended guidance on the presentation of comprehensive income. The amended guidance eliminates one of the presentation options provided by current U.S. GAAP, that is to present the components of other comprehensive income as part of the statement of changes in stockholders' equity. In addition, it gives an entity the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. This guidance

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will be effective for reporting periods beginning after December 15, 2011, and will be applied retrospectively. We are in the process of evaluating the disclosure impact of this guidance.

### ITEM 3: Quantitative and Qualitative Disclosures About Market Risk

#### Interest Rate Risk

While we are exposed to interest rate fluctuations in many of the world's leading industrialized countries, our interest income and expense is most sensitive to fluctuations in the general level of U.S. interest rates. Our investment strategy is focused on preservation of capital and supporting our liquidity requirements. Our exposure to market risk as a result of changes in interest rates relates primarily to our cash and cash equivalents, certain interest rate sensitive assets held in our investment portfolio and under the NQDC Plan and our credit facility. Our NQDC Plan assets include holdings of various issuers, types and maturity dates.

The market value of these investments on any given day during the investment term may vary as a result of market interest rate fluctuations. A hypothetical 10% movement in interest rates during the investment term would not have a material impact on the fair value of the portfolio. The actual impact on the fair value of the portfolio in the future may differ materially from this analysis, depending on actual balances and changes in the timing and the amount of interest rate movements.

Our consolidated operating results are affected by, among other factors, interest income on our cash equivalents. If the interest rate declines, our consolidated operating results may be negatively impacted.

In addition to our cash flows from operations, we derive our liquidity from our credit facility (the "Facility"). Our total borrowings under the Facility as of September 30, 2011 were \$500 million. Borrowings under this Facility bear a variable interest rate at either a Eurodollar rate ("LIBOR") or a Prime rate, at our option, plus an applicable margin based upon certain financial ratios, determined and payable quarterly. The interest rate as of September 30, 2011 was LIBOR plus 0.27%. In addition, we pay a facility fee on the entire Facility. This facility fee varies with certain financial ratios and was 0.08% as of September 30, 2011.

Our consolidated operating results and cash flows are exposed to changes in interest rates that could adversely affect the amount of interest expense incurred and paid on the Facility in any given period. Due to the variable interest rate on the Facility, the fair value of the Facility would not likely be materially affected by any future changes in interest rates.

#### Equity Price Risk

We are exposed to equity price risk inherent in the marketable equity securities held in our NQDC Plan. A hypothetical 10% 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 10% from rates in effect at September 30, 2011, the resulting transaction gains or losses and the effects of remeasurement would not materially affect our consolidated financial position, operating results or cash flows.



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### ITEM 4: Controls and Procedures

#### Evaluation of Disclosure Controls and Procedures

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

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

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

#### Changes in Internal Control over Financial Reporting

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

#### Limitation on Effectiveness of Controls

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

## PART II OTHER INFORMATION

### ITEM 1: Legal Proceedings

This information is included in Note 11 — Commitments and Contingencies to our consolidated financial statements in Item 1 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, 2010. 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, 2010.

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, 2010 and the other information contained elsewhere in this report. These risks are not the only risks facing our company. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also affect our business. Our business, consolidated operating results and financial position could be seriously harmed if any of the events underlying any of these risks or uncertainties actually occurs. In that event, the market price for our common stock could decline, and you may lose all or part of your investment.



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

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

## 2(c) Issuer Purchases of Equity Securities

We have an ongoing authorization from our Board of Directors to repurchase up to 193.0 million shares of our common stock. As of September 30, 2011, we had repurchased 183.1 million shares for an aggregate cost of \$3.9 billion.

During the three and nine month periods ended September 30, 2011, we repurchased shares of our common stock as follows:

Period (Shares presented in thousands)	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
7/2/2011 - 7/29/2011	3,250	41.07	3,250	11,461
7/30/2011 - 8/26/2011	1,550	41.01	1,550	9,911
8/27/2011 - 9/30/2011	—	—	—	9,911
	4,800		4,800	

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

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

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ITEM 6: Exhibits

Exhibit No.	Description
#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.

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# Filed herewith.

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SIGNATURES

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

ALTERA CORPORATION

By: /s/ RONALD J. PASEK

Ronald J. Pasek

Senior Vice President and Chief Financial Officer

(Principal Financial and Accounting Officer)

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