



Letter to Shareholders

Corporate Profile

Altera Corporation, The Programmable Solutions Company®, is a world leader in programmable logic devices (PLDs). Altera®

PLDs are standard integrated circuits that allow customers to program and personalize the application of the chip to provide market differentiation. Altera serves over 13,000 customers in four primary vertical markets:

Telecom and Wireless, Industrial Automation, Military and Auto, Networking, Computer and Storage and Other

2010 was a breakout year for Altera. Our sales grew 64 percent to a record \$1.95 billion, with net income of \$782.9 million, 40% of sales—the most profitable year in the company’s history. We benefited from the global economic recovery, an industry shift to use more field-programmable gate arrays (FPGAs), and market share gains flowing from our technology leadership in the programmable logic device (PLD) industry. These top-line trends, coupled with our multi-year cost reduction focus, created remarkable operating leverage and record profits.

Growth was broad in 2010. Our Telecom and Wireless vertical market recorded an outstanding year, up 64 percent, as demand for our devices in wireless infrastructure equipment soared. All of our other vertical markets grew handsomely: Industrial Automation, Military & Automotive up 61 percent, Networking, Computer & Storage up 55 percent, and our “Other” vertical market up 73 percent. A combination of 71 percent gross margin and tightly controlled operating expenses led to a record operating margin of 44 percent.

Altera’s substantial cash-generating capability and financial strength is clearly visible in our 2010 results. Our \$856.7 million in cash flow from operations contributed to a year-end \$2.8 billion in cash and investments. Our balance sheet remains strong, giving us resilience and flexibility.

Growth

Altera benefits from two broad trends: market forces increasingly favor FPGAs for use in newly designed electronic systems, and Altera’s growing technology leadership enables us to take full advantage of this long-term shift to FPGAs. As rising development costs limit the usefulness of competing application-specific integrated circuit (ASIC) technology, our customers are increasingly turning to FPGAs. Over the past several years Altera FPGAs have outgrown ASICs in our served markets, and our relative growth rate has accelerated. We believe this trend will extend into the future, helping us outgrow our customers as we secure more content in their newest and generally fastest growing applications. Further, we believe that underlying growth trends are favorable across our targeted vertical markets and applications.

Altera’s technology leadership has clear benefits as seen by our growing market share in the PLD industry. Not only does our superior technology attract new business, but it also creates a growing incumbency advantage that helps us win subsequent roles in customers’ next-generation systems.

Financial Highlights

Five years ended December 31, 2010
(In thousands, except per share amounts)

	2010	2009	2008	2007	2006
Net sales	\$ 1,954,426	\$ 1,195,413	\$ 1,367,224	\$ 1,263,548	\$ 1,285,535
Cash flow from operating activities	\$ 856,695	\$ 372,706	\$ 449,266	\$ 271,593	\$ 426,901
Net income	\$ 782,884	\$ 251,062	\$ 359,651	\$ 290,023	\$ 323,236
Diluted net income per share	\$ 2.49	\$ 0.84	\$ 1.18	\$ 0.82	\$ 0.88
Cash and investments	\$ 2,765,196	\$ 1,546,672	\$ 1,216,743	\$ 1,021,379	\$ 1,620,310
Stockholders' equity	\$ 2,323,652	\$ 1,085,336	\$ 799,877	\$ 861,450	\$ 1,608,161

Creating this leadership position required years of focused effort to engineer improved FPGA architecture, upgrade our software-based development tools, and introduce other key intellectual property that are collectively a step ahead of the competition. Our technology leadership is now strong and broad, encompassing many aspects of product and software functionality and making it more difficult for others to challenge us in the future.

In the fourth quarter of 2010, two years after we led the industry with our first 40-nm devices, sales of this new generation of products, which includes our Stratix® IV and Arria® II FPGAs, reached 17 percent of sales. These families are on the threshold of their strongest growth phase, which we expect will extend over the next several years. During this time, 40-nm products will become the PLD industry's growth driver.

The size of the opportunities we are pursuing with our 40-nm FPGAs and our sales successes to date are well beyond what we have experienced with any prior generation. Our very strong competitive position at the leading-edge 40-nm node, combined with the continuing momentum from our improved FPGA share over the past generations, gives us the potential for additional FPGA share gains over the coming years.

The Next Step

In early 2011, our first 28-nm FPGAs will begin shipping, with features and performance that increase our attractiveness as an alternative to fixed-function ASICs or application-specific standard products (ASSPs). Once again, our products at this node have distinct technology advantages and are supported by improved development software. Our differentiated offerings optimize manufacturing process, silicon architecture, and intellectual property (IP) to create the best, most technologically advanced solution for applications across our targeted markets.

Also at this node is a step up in FPGA and processor integration. We believe there is a natural synergy between FPGAs and processors, and we want to lead this integration trend so that our customers can benefit from the flexibility, high performance and low cost that comes from these more broadly capable FPGAs. These new capabilities add as much as \$9 billion to the available market from ASIC and ASSP displacements, estimated at \$38 billion.

In addition, the 28-nm node expands the efficiency and breadth of the targeted IP we incorporate into Altera FPGAs. This improved IP capability combines with our enhanced processor integration to strengthen our position as we compete more aggressively to displace ASSPs and microcontroller-based alternatives.

Final Thoughts

Altera's people continue to be our "secret sauce." Our remarkable success in 2010 started many years ago as we restored our competitive position in the FPGA industry and, based on our deep understanding of customer needs, carefully developed technology innovations we knew would be highly valued. Our success required personal diligence and initiative at all levels of our organization. Altera is fortunate to have such a talented and committed group of people—my thanks to them.

FPGA technology is entering a new and even more attractive phase and will provide an unusually solid growth opportunity for years to come. We remain keenly focused on two prime objectives: to be the best in our industry at delivering this FPGA advantage to our customers and, by doing so, to deliver increasing value to you, our shareholders. We are very pleased to see the progress we made on both fronts in 2010 and continue to believe our technology and market momentum will bring substantial opportunity to Altera in the years ahead.



John P. Daane
Chairman, President, and Chief Executive Officer

This letter uses the term "operating margin," which we define as gross margin less R&D and SG&A expenses. This treatment differs from income from operations as defined by U.S. Generally Accepted Accounting Principles, as it excludes the effect of compensation associated with deferred compensation plan obligations. Since the effect of compensation associated with our deferred compensation plan is offset by losses (gains) from related securities, we believe this presentation provides a more meaningful representation of our ongoing operating performance. Income from operations (GAAP) in 2010 was \$861.5 million. We experienced a \$6.8 million compensation expense associated with our deferred compensation plan, resulting in a \$868.3 million operating margin (non-GAAP), 44 percent of sales.

This letter contains "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements are based upon information available to us as of the date of this letter. These statements include, without limitation, the shipment schedule for our 28-nm FPGAs, and our ability to outgrow ASICs in our served markets, maintain the growth of our Stratix IV and Arria II FPGA families, increase our FPGA market share, and occupy a superior position at 40-nm. Readers are cautioned that all forward-looking statements in this letter involve risks and uncertainty that can cause actual results to differ from those currently anticipated, due to a number of factors, including without limitation, changes in economic conditions, customer business environment, market acceptance of the company's products, product introduction schedules, the rate of growth of the company's new products as well as our ability to control cost of goods sold and operating expense, and other risk factors discussed in Item 1A: Risk Factors of our Annual Report on Form 10-K as well as other documents filed by Altera with the Securities and Exchange Commission from time to time. Copies of Altera's SEC filings are posted on the company's web site and are available from Altera without charge. Except as required by law, Altera does not undertake an obligation to update its forward-looking statements to reflect future events or circumstances.