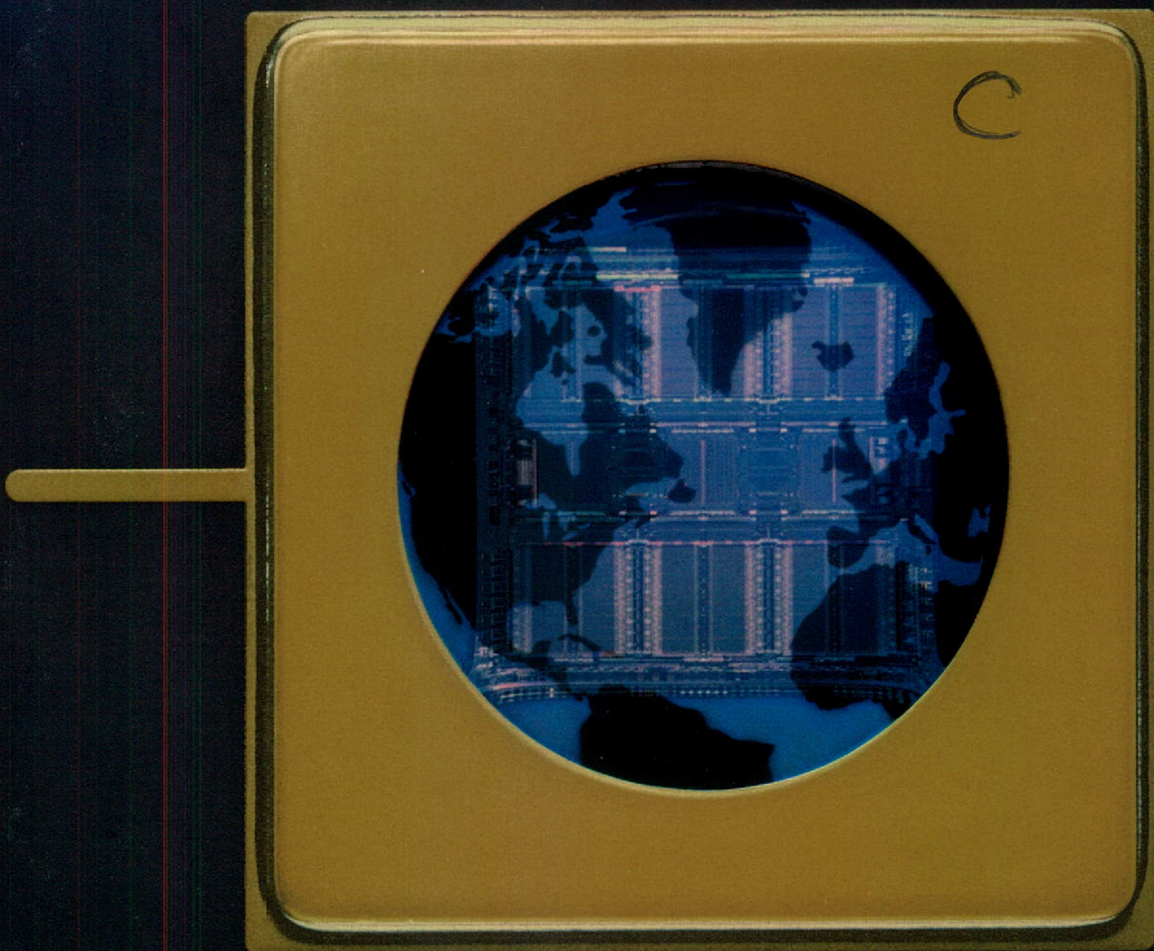
1991 ANNUAL REPORT



ALTERA

Altera Corporation is a leading manufacturer of high-density programmable logic semiconductor chips. Using Altera's proprietary software, customers can configure and program these logic chips in-house for a wide variety of end uses. These customers control their own proprietary logic designs while enjoying faster time to market and reduced design and inventory risks.

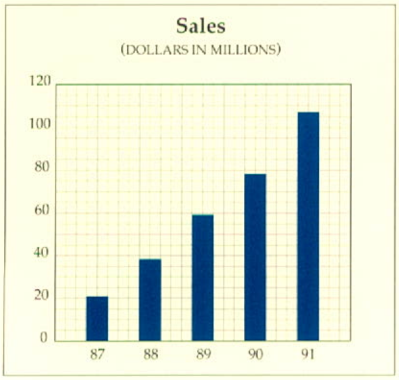
Altera offers the broadest line of programmable logic chips in the semiconductor industry, and sells these chips worldwide. Approximately one half of the Company's business is in geographic areas outside of the United States.

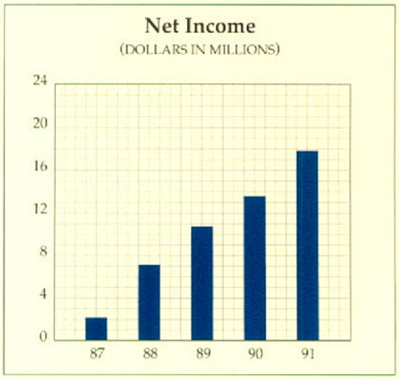
Altera, founded in 1983, is committed to providing innovative logic solutions to serve the diverse needs of customers in the telecommunications, office automation and peripherals, industrial, and military/aerospace markets.

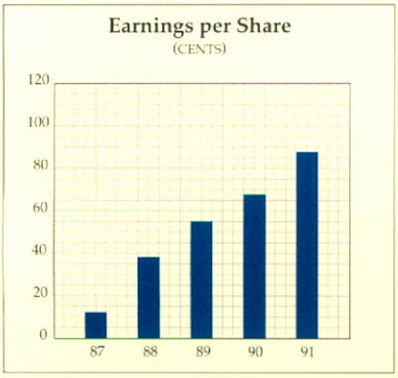
Contents

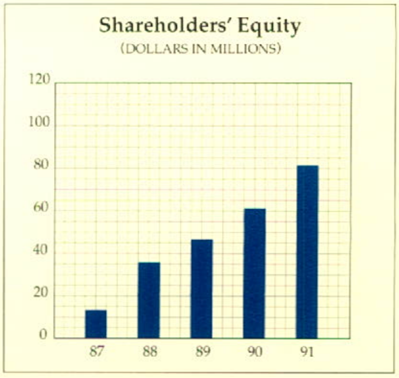
Financial Highlights

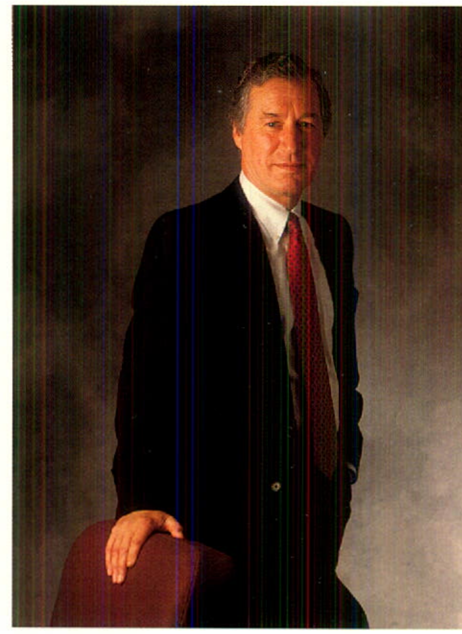
(Dollars in thousands, except per share amounts)	1987	1988	1989	1990	**1991**
	Year Ended December 31				
Sales	$20,652	$37,857	$58,868	$78,304	**$106,862**
Net Income	2,029	7,067	10,761	13,385	**17,807**
Earnings per Share	0.12	0.38	0.55	0.67	**0.87**
Operating Income	1,881	6,807	13,145	18,736	**26,212**
Research and Development	4,304	5,656	9,430	10,672	**14,381**
Capital Expenditures	1,702	5,169	5,611	8,082	**7,803**
Cash and Investments	8,492	21,942	26,022	23,285	**40,149**
Shareholders' Equity	13,482	35,318	46,635	61,010	**81,450**
Return on Average Equity	16.5%	24.8%	26.4%	24.9%	**25.0%**
Number of Employees	147	206	284	370	**446**











Fellow Shareholders:

It gives me great pleasure to report another record year for Altera. Although the worldwide semiconductor industry was sluggish throughout the year, we were fortunate to see continued strong demand. Our sales increased 36% over 1990, and profit increased by 33% over the prior year. The balance sheet was significantly strengthened, with our cash position increasing by 72% over 1990, all of which was generated from operations. We continue to be debt-free.

Once again, I would like to give credit for these outstanding results to the efforts of our employees. They continued to improve our effectiveness and efficiency, with the result that our productivity, already among the highest in the industry, was further enhanced. This year, we achieved revenue per employee of $262,000, a new record.

This year was a significant milestone for the Company in that it marked the completion of 30 quarters of sequentially increasing sales and 20 quarters of sequentially increasing profits. This milestone has been achieved despite two down-cycles in the semiconductor industry.

Our accomplishments for the year were significant:

In the first quarter, we announced our innovative new MAX+PLUS II software package. This product, running under Microsoft Windows 3.0, began shipping in May and was well received by our customers. It offers integrated support for all our product families and provides superior performance to the user.

We were able to overcome the capacity constraints on our MAX 5000 family and, in the second half of the year, were able to ship from stock for the first time. Production shipments of the two highest-density members of the MAX 5000 family strengthened our competitive position.

In December, we shipped samples of our first MAX 7000 chip, the EPM7256. It offers the highest density of any of our devices, is capable of 70-MHz clock rates, and continues our tradition of performance leadership in the high-density, complex-PLD market.

We also introduced our EPM7032 chip. Using E^2 technology, the EPM7032 is the fastest 44-pin chip available in the market. It is the first product of our technology diversification effort, an effort that will continue at an accelerated pace in 1992.

Financial Highlights	1991	1990	Change
Sales	$106.9	$78.3	+36%
Net Income	17.8	13.4	+33%
Earnings per Share	0.87	0.67	+30%
Operating Income	26.2	18.7	+40%
Research & Development	14.4	10.7	+35%
Capital Expenditures	7.8	8.1	–3%
Cash	40.1	23.3	+72%
Shareholders' Equity	81.5	61.0	+34%
Return on Equity	25.0%	24.9%	
Number of Employees	446	370	+21%

Dollars in millions, except per share amounts

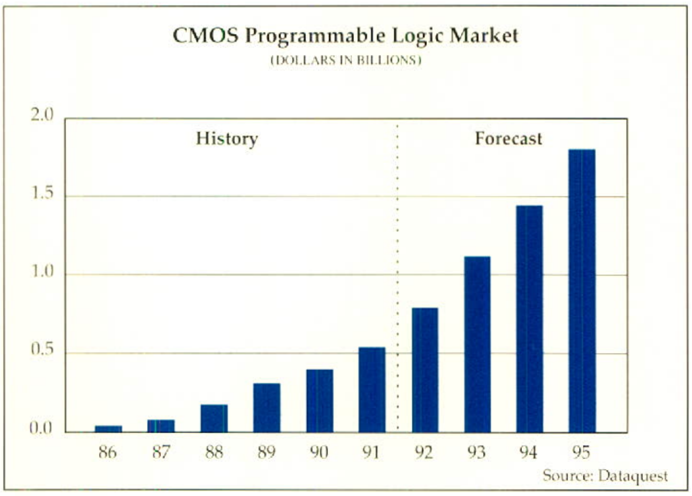
I am also happy to report that we met our goal of 20% of revenues in Japan. The international market continues to be strong, and Japan, in particular, is one of the strongest growth areas for us. We will continue to focus on these high-growth opportunities.

Altera participates in a market segment that is growing faster than the semiconductor industry as a whole, and we will continue to invest in research and development to be able to respond to the new opportunities created in this high-growth area.

Thank you for your support.

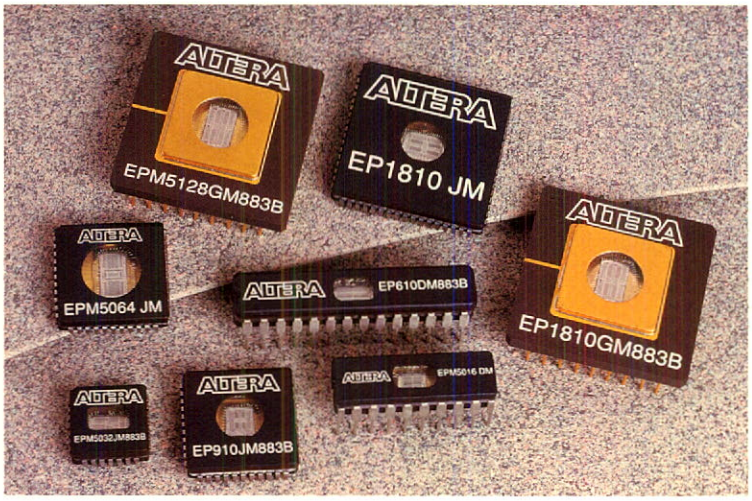
Rodney Smith

Rodney Smith
President and Chief Executive Officer



Programmable logic chips are integrated circuits that can be customized by the end-user at his location to perform a specific, unique logic function. The market for these chips has grown rapidly over the past several years as the size and speed of the chips have increased.

The major factors driving the increasing use of these chips are "time to market" and "risk avoidance." Since these chips are user-programmable, they enable systems engineers to bring products to market faster and to change designs more easily. The risks of extra costs and delays caused by design errors are avoided. The resulting time-to-market advantage is increasingly important as the life cycles of system products continue to shrink. This development and the fact that the logic capacities and speeds of programmable logic chips are increasing allow the chips to be used in many electronic system products, ranging from cellular telephone systems to medical instruments.



Altera offers the broadest line of programmable logic chips in the semiconductor industry.

In 1984, Altera introduced the world's first erasable Complementary Metal Oxide Semiconductor (CMOS) logic chip. CMOS technology made it possible to produce programmable logic circuits with much larger logic capacities (densities) than ever before. Today, programmable logic chips are approaching densities of 20,000 gates (a gate is a unit of measure for logic), enabling system designers to build more and more complex systems. Programmable logic is capturing an increasing share of designs away from the custom gate array chip market. As a result, the CMOS programmable logic market is projected by market research firms to experience continuing growth (see the chart above). These forecasts are attracting new entrants, including venture-capital-funded start-up companies and existing companies. Future success in the programmable logic market will depend on ongoing product innovation, execution of marketing strategies, and high-quality customer service.

Altera's programmable chips are high-performance logic circuits that can be purchased "off the shelf" as standard products and then configured by customers for individualized end uses. Customers' logic designs are programmed into the chips with the Company's low-cost development software. This standard product solution permits Altera customers to meet their performance and cost objectives, while avoiding the long time to market, significant development costs, and dedicated inventories associated with custom alternatives such as gate array chips.

The EPM7256 MAX EPLD offers up to 10,000 gates and the highest pin-to-gate ratio available in the industry today.

The combination of Altera's patented chip architecture and advanced programming software provides customers with high performance and high logic density, together with the benefits of simplified chip programming. Altera's chip architectures let the user predict critical performance paths in the integrated circuits and make the chips easier and faster to design.

Altera is continuing to innovate. The Company offers the broadest range of general-purpose programmable logic chips in the market today. Its first architecture, known as Classic, was introduced in 1984 and offers chips ranging from 300 to 2,000 gates. The Company's second architecture, introduced in 1988 and designated the MAX 5000 family, provides from 600 to 7,500 gates. In 1991, a third-generation architecture called the MAX 7000 family, which offers still larger and faster chips, was introduced. First samples of MAX 7000 parts were shipped in the fourth quarter of 1991. The MAX 7000 family is manufactured in multiple locations to provide multiple sources of supply.

Each new generation of Altera chips has provided faster performance and greater gate density than the preceding one. As logic capacity, pins, and operating speeds of the chips increase, the potential market opportunity increases, since more and more potential end uses can be served. Altera expects its new products to continue to serve its primary markets of telecommunications, office automation and peripherals, industrial, and military/aerospace.

A cornerstone of Altera's strategy is to provide advanced engineering software that makes Altera's chips quick and simple to use relative to other alternatives. Altera software tools improve the productivity of the engineer and can be used over and over again to generate different designs. Industry observers consider Altera's development software to be among the best in the industry.

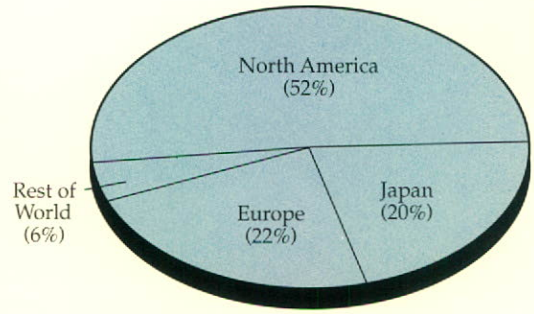
A logic design for an Altera chip is completed in three steps: design entry, implementation, and verification. The Company's software provides complete capability for each step, so that the customer can take advantage of a very uniform and easy-to-learn design environment. While the time required to complete a design varies depending on its size and complexity, it usually can be completed within a day or two. Actually programming the design into the chip is very quick, taking only a few seconds.

Altera has licensed over 11,000 of its software packages to approximately 5,000 users worldwide. The software is available for IBM personal computers and engineering workstations, including Sun workstations. In May 1991, MAX+PLUS II, Altera's newest software product, was introduced. It runs under Microsoft Windows, providing an easy-to-use graphical interface, automatic multi-chip partitioning, and further advancement in user-productivity. By taking advantage of the features of the Windows software, users can run several functions of the software simultaneously and easily switch between them, making logic integration easier than ever before.

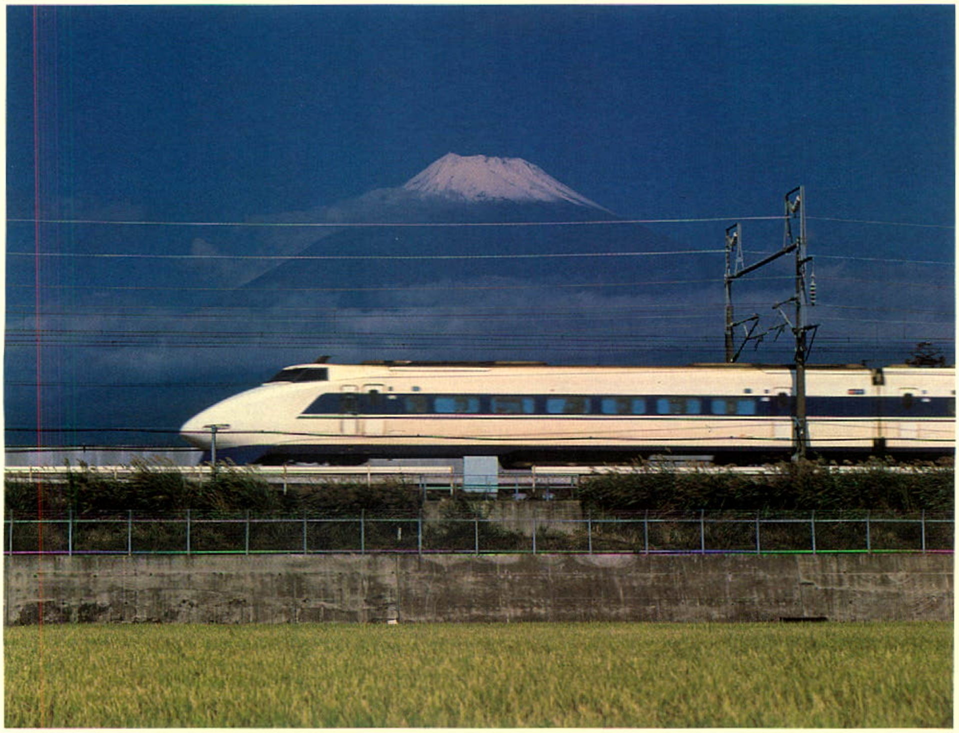
Altera's MAX+PLUS II software enhances engineering productivity.

Altera's software also supports many third-party software packages, allowing customers to use software they may already own or be familiar with. Altera provides these options for customers who want to define their own design environment.

Altera markets its products to a broad range of customers throughout the world through a network of independent sales representatives and electronics distributors. In North America, the selling organization is comprised of 7 regional sales offices, 44 manufacturer's representative locations, and 6 distributors with 87 branch locations. During 1991, sales to international markets made up approximately 48% of total sales. The Company has international sales offices located in Europe and Japan, as well as distributors with 53 offices in 36 countries.



Altera products serve four diversified, major end markets: telecommunications, office automation and peripherals, industrial, and military/aerospace. Within these markets, Altera programmable logic chips are used in an increasing variety of end products, a few of which are shown here. They are exciting products, changing the world with the help of Altera's chips.

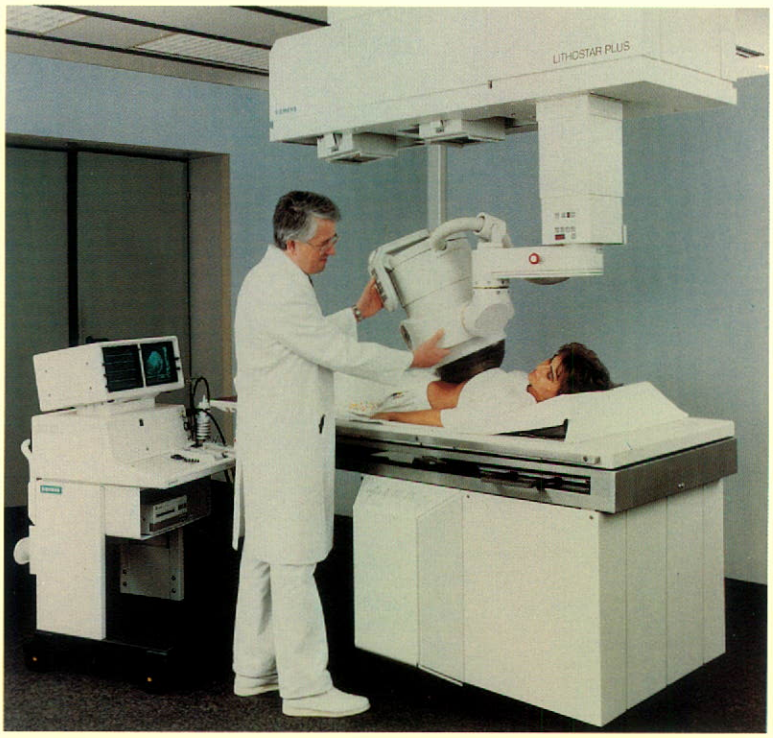


The Super Shinkansen is one of the world's fastest trains. Shown here in front of Mount Fuji on its run between Tokyo and Osaka, it is capable of speeds in excess of 270 km/hr (170 mph), while carrying approximately 1,200 people. Altera chips are used in the electronics for the train.

Researchers evaluate the high-definition picture performance of the Zenith-AT&T "Digital Spectrum Compatible" HDTV system incorporating Altera programmable logic chips. Inset photo: One of the HDTV system printed circuit boards showing Altera chips in use.

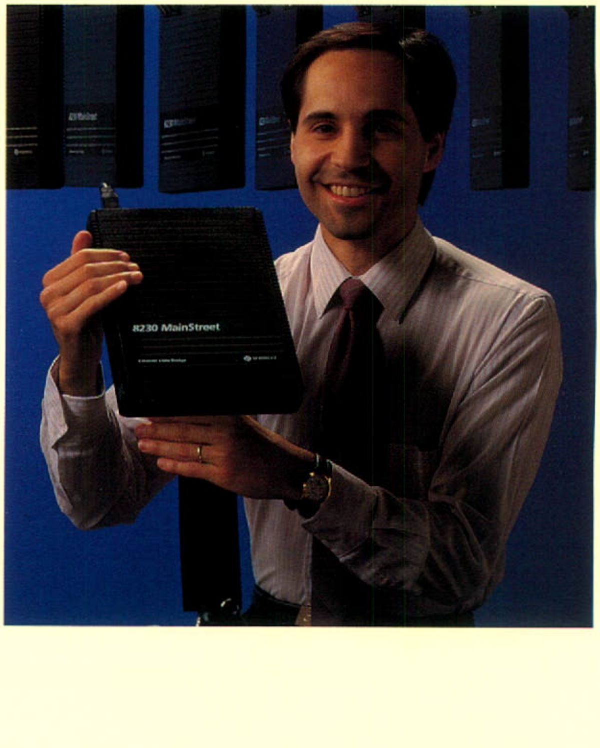
The Panasonic D-3 professional video recorder system uses Altera logic chips as part of its electronics. This digital video recording system has been chosen as the official broadcast recording equipment for the 1992 Summer Olympics in Barcelona, Spain.

The Siemens LITHOSTAR PLUS is a fully integrated medical system designed to aid in the diagnosis and therapy of internal organ diseases, especially those related to the kidney. The electronically controlled x-ray subsystem provides access to all parts of the human body without movement of the patient. The remote operator's console provides complete control of the system and includes a high-contrast, high-resolution display for diagnostic purposes. A number of Siemens advanced medical systems such as this incorporate Altera chips to provide custom logic functions.



The new HC-100 High Definition Image Capture Camera from Fuji Film incorporates the Altera Synchronous Timing Generator (STG) chip. The camera provides extremely high resolution graphics for outstanding clarity and realism.

Newbridge Networks Corporation, a leading supplier of multiplexer-based Ethernet and Token Ring LAN bridges, uses Altera chips to shorten the development cycle on new products.



Common Stock Altera's common stock has traded on the NASDAQ National Market System under the symbol ALTR since the Company's initial public offering in March of 1988. As of December 31, 1991, there were 24 brokerage firms acting as market-makers for the Company's stock. Altera has never paid cash dividends and has no present plans to do so.

Inquiries If you have questions concerning stock certificates, change of address, transfer of ownership, or other stock account matters, please contact your broker or Altera's transfer agent:

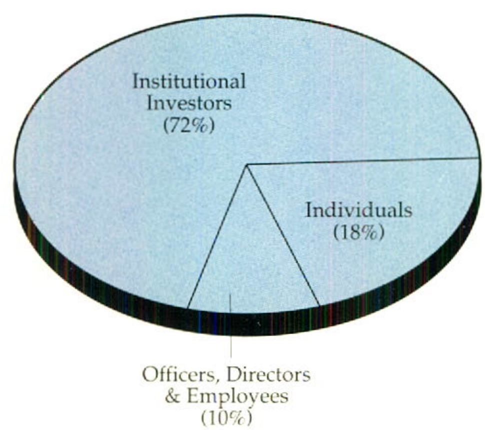
Manufacturers Hanover Trust Company of California
Securityholder Relations Department
50 California Street, 10th Floor
San Francisco, CA 94111
Telephone: (800) 647-4273

To obtain a copy of Altera's Form 10-K, or the most recent Form 10-Q as filed with the Securities and Exchange Commission, or additional copies of this Annual Report, without charge, please contact:

Investor Relations
Altera Corporation
2610 Orchard Parkway
San Jose, CA 95134-2020
Telephone: (408) 894-7000

Stock Ownership Profile At December 31, 1991, there were approximately 452 holders of record of Altera stock. About 18% is held by individuals, 72% by institutional investors, and 10% by officers, directors, and employees. Institutional ownership of the Company's stock at December 31, 1991, was at an all-time high, having risen steadily from less than 20% in 1988 after the initial public offering.

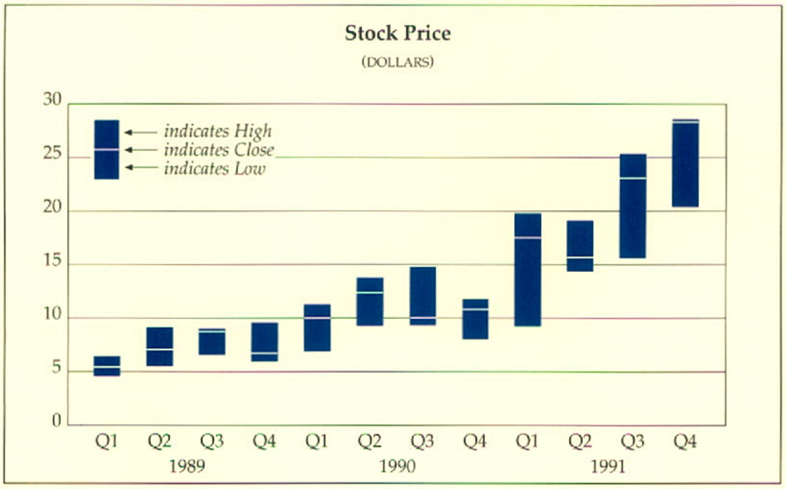
Stock Ownership

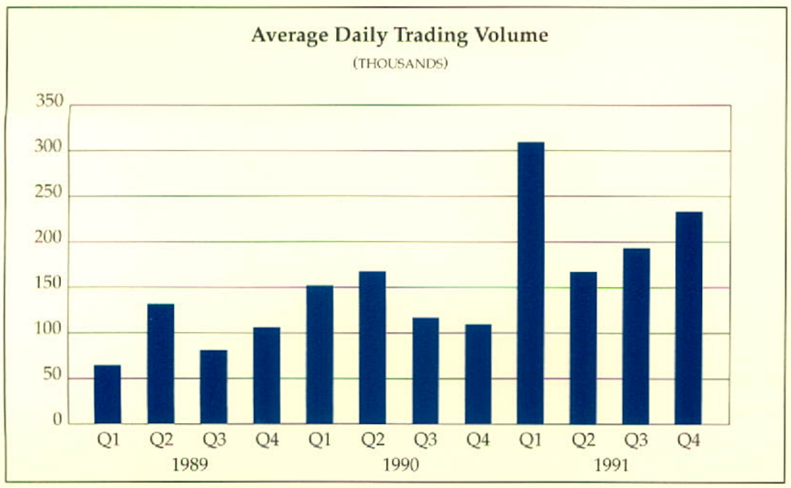


Quarterly high and low prices in the past three years:

1991	Q1	Q2	Q3	Q4
High	19 7/8	18 7/8	25 1/8	28 1/4
Low	9 1/8	14 1/4	15 1/2	20 3/8
1990	**Q1**	**Q2**	**Q3**	**Q4**
High	10 5/8	13 3/4	14 7/8	11 1/4
Low	6 3/4	9 1/4	9 3/8	8 1/4
1989	**Q1**	**Q2**	**Q3**	**Q4**
High	6 1/4	9	8 7/8	9 1/2
Low	4 3/4	5 3/8	6 7/8	5 7/8

Altera's stock price rose gradually in 1989 and 1990, and increased more rapidly in 1991. The Company's price/earnings ratio at year-end was 12.5 in 1989, 16.0 in 1990, and 32.5 in 1991.





The average trading volume in the Company's stock increased 70% in 1991 over 1990, as measured by NASDAQ. Trading volume in 1991 averaged 225,000 shares per day, compared to 133,000 per day in 1990.

FIVE-YEAR SUMMARY

(In thousands, except per share amounts)	1991	1990	1989	1988	1987
	Year Ended December 31				
Statements of Operations Data:					
Sales	**$106,862**	$78,304	$58,868	$37,857	$20,652
Cost of sales	**43,846**	32,515	23,902	15,109	7,818
Gross profit	**63,016**	45,789	34,966	22,748	12,834
Research and development	**14,381**	10,672	9,430	5,656	4,304
Selling, general, and administrative	**22,423**	16,381	12,391	10,285	6,649
Income from operations	**$ 26,212**	$18,736	$13,145	$ 6,807	$ 1,881
Income before income taxes	**$ 27,845**	$20,717	$15,361	$ 8,175	$ 2,149
Net income	**$ 17,807**	$13,385	$10,761	$ 7,067	$ 2,029
Net income per share	**$ 0.87**	$ 0.67	$ 0.55	$ 0.38	$ 0.12
Shares used in computing net income per share	**20,567**	19,992	19,681	18,789	16,576

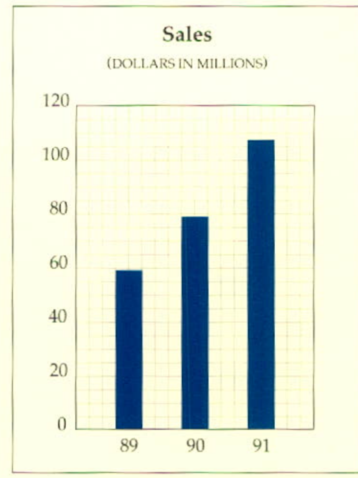
	1991	1990	1989	1988	1987
	December 31				
Balance Sheets Data:					
Working capital	**$ 51,414**	$37,971	$36,915	$27,748	$ 8,521
Total assets	**$102,206**	$74,947	$55,475	$43,078	$21,888
Long-term obligations					$ 2,356
Shareholders' equity	**$ 81,450**	$61,010	$46,635	$35,318	$13,482
Book value per share	**$ 4.11**	$ 3.14	$ 2.46	$ 1.88	$ 0.86

UNAUDITED QUARTERLY DATA

(In thousands, except per share amounts)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	Year Ended December 31,1991			
Sales	$23,215	$26,004	$28,076	$29,567
Gross profit	$13,572	$15,345	$16,586	$17,513
Net income	$ 3,670	$ 4,218	$ 4,745	$ 5,174
Net income per share	$ 0.18	$ 0.21	$ 0.23	$ 0.25

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	Year Ended December 31,1990			
Sales	$17,331	$19,301	$20,471	$21,201
Gross profit	$10,002	$11,247	$12,159	$12,381
Net income	$ 3,068	$ 3,333	$ 3,427	$ 3,557
Net income per share	$ 0.15	$ 0.17	$ 0.17	$ 0.18

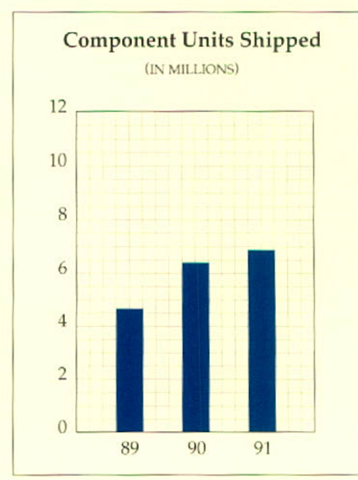
Altera Corporation's products are used by a large and diverse group of customers in markets around the world. This diversity in customers, markets, and geography minimizes the impact of cyclical industry and economic conditions. One result has been consistent financial performance. However, past results should not be used to predict future performance.



RESULTS OF OPERATIONS

SALES The Company reported sales of $106.9 million, an increase of 36% from $78.3 million reported for 1990 and an 82% increase from the $58.9 million reported for 1989. This increase in revenue resulted from increased unit sales of existing products and sales of new products.

Altera's development systems and software, which allow the Company's customers to program the Company's chips, accounted for 10% of sales in 1991, 11% in 1990, and 15% in 1989. The introduction of the MAX+PLUS II programming software for a Windows environment contributed significantly to the increase in development systems and software sales dollars in 1991. The Company's development tools currently run on IBM PCs and engineering workstations, including Sun workstations.



Altera's chip sales over the last three years have consisted primarily of two types of general-purpose logic products: the first generation of parts known as the Classic family, ranging in size from 300 to 2,000 logic gates; and the second-generation MAX 5000 family, which offers a matrix architecture providing from 600 to 7,500 logic gates. A third-generation MAX 7000 family began shipping in December 1991. Due to its recent introduction, the MAX 7000 family did not contribute significantly to sales in 1991.

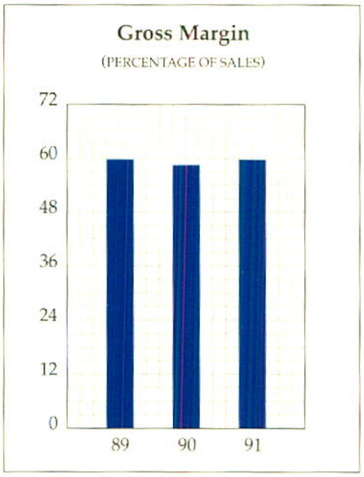
The average selling price of Altera's products increased in 1991, as compared to the average selling prices experienced in 1990 and 1989. The higher average selling price reflects a greater number of MAX products, which have higher selling prices. The effect of these higher selling prices on average selling prices was partially offset by lower selling prices on the more mature Classic products. Altera believes that it is common for the prices of high-technology products to decline as the technology ages and new, more advanced products are introduced. The Company expects this trend to continue.

Altera's major markets continued to be telecommunications, office automation and peripherals, industrial, and military/aerospace applications. In 1991, Altera continued to grow as a global supplier with international sales reaching 48% of total sales as compared to 42% and 34% of total sales in 1990 and 1989, respectively.

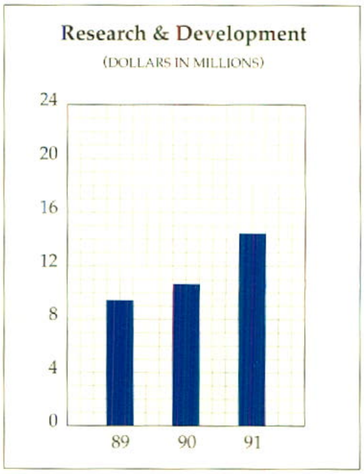
Key elements of the statements of operations, expressed as a percentage of sales, were as follows:

	Year Ended December 31		
	1989	1990	**1991**
Sales	100%	100%	**100%**
Cost of sales	41%	42%	**41%**
Gross margin	59%	58%	**59%**
Research and development	16%	14%	**13%**
Selling, general, and administrative	21%	21%	**21%**
Operating income	22%	24%	**25%**
Other income, net	4%	3%	**1%**
Provision for income taxes	8%	9%	**9%**
Net income	18%	17%	**17%**

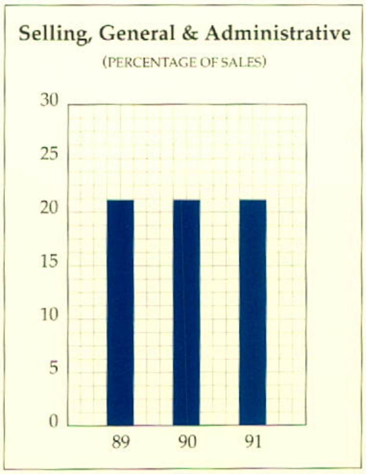
GROSS MARGIN The Company's gross margin as a percentage of sales increased in 1991 as compared to 1990 and was equivalent to 1989. The increased sales level of MAX 5000 family products, as well as improved manufacturing yields and efficiencies resulted in the higher gross margin. The average selling prices for mature products declined but were partially offset by reduced costs resulting from lower supplier costs and improved production methods. Development systems and software margins are higher than margins on commercial chips, but their sales have declined as a percentage of total sales.



RESEARCH & DEVELOPMENT Altera endeavors to advance its existing products and introduce new ones through its research and development efforts. The Company has increased the dollars spent on research and development each year. Over the last three years, Altera has developed the MAX 5000 family, initial members of the MAX 7000 family, and faster versions of the Classic family of chips. In 1989 and 1990, the Company also spent significant resources to improve production yields on the MAX 5000 family. Yields on these products have improved, but there can be no guarantee that yield problems and the need to improve product yields might not recur with existing or new products. Altera does not capitalize any of its research and development or software development costs.

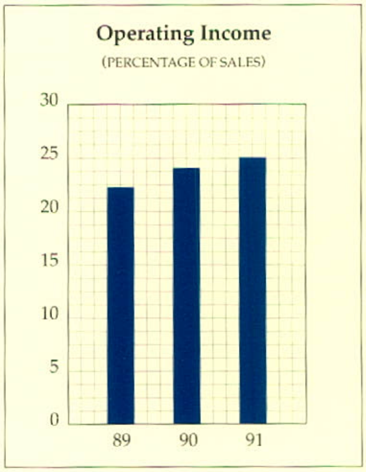


SELLING, GENERAL & ADMINISTRATIVE Selling, general, and administrative expenses have increased each year, although constant as a percentage of sales over the three-year period. The Company sells its products using three methods: direct sales to manufacturers by Altera's sales department, direct sales to manufacturers by independent sales representative firms, and sales through licensed domestic and foreign distributors. Sales expenses have increased each year due to higher commission expenses paid on higher sales, the costs of new sales offices, and increasing staff in existing offices. The Company has seven sales offices in the United States and six international sales offices. The Company will continue to increase sales resources in areas where it perceives significant opportunities to increase sales or customer service.



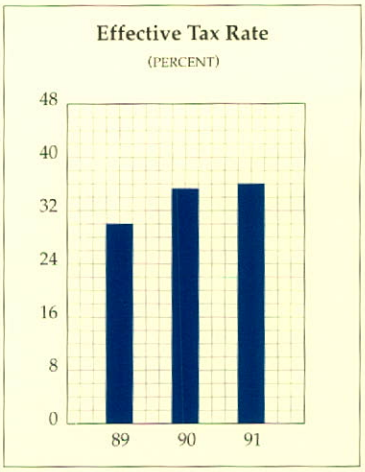
General and administrative expenses have increased each year, but have declined as a percentage of sales. The major components of these expenses are accounting, data processing, human resources, and corporate administration.

OPERATING INCOME Operating income increased to $26.2 million in 1991 from $18.7 million in 1990 and $13.1 million in 1989. As a percentage of sales, operating income was 25% in 1991, as compared to 24% in 1990 and 22% in 1989. The growth in operating income resulted primarily from higher sales and reductions in research and development as a percentage of sales.



INTEREST, NET Altera earns interest income on its cash, cash equivalents, and short-term investments. The amount of interest income earned varies directly with the amount of cash equivalents and short-term investments, as well as the interest rate environment in the United States. Interest income declined in 1991 as compared to 1990 due to lower interest rates. At December 31, 1991, Altera had no debt or capital lease obligations.

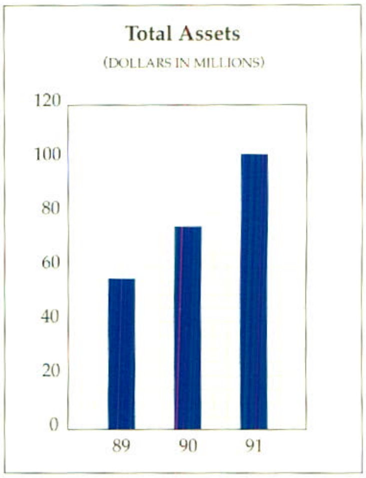
PROVISION FOR INCOME TAXES Altera's effective tax rate increased to 36% in 1991, from 35% in 1990 and 30% in 1989. Altera utilized net operating loss and tax credit carryforwards to reduce its taxes by $0.3 million in 1989. The increase in tax rates for 1991 and 1990 reflects the exhaustion of both the net operating loss carryforwards early in 1989 and



the tax credit carryforwards in 1990. The Company has adopted the liability method of accounting for income taxes pursuant to SFAS 96, retroactive to the Company's inception.

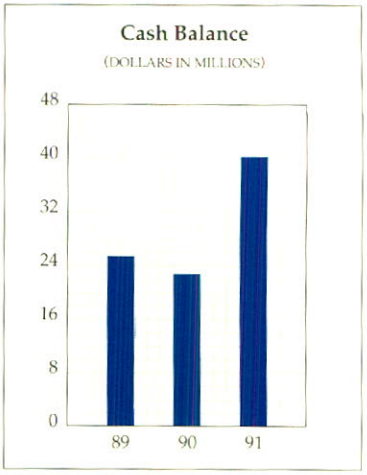
FINANCIAL CONDITION

Total assets have grown to $102 million at the end of 1991, up from $75 million at the end of 1990. The increase of $27 million was due to favorable operating results for the year, and the resulting larger amounts of cash, cash equivalents, and short-term investments; accounts receivable; equipment; and a long-term investment (described below). The percentage changes of major balance sheet line items from December 31, 1990, to December 31, 1991, were as follows:



% Change from December 31, 1990 to December 31, 1991	
Cash, cash equivalents & short-term investments	72%
Accounts receivable	12%
Inventories	(10%)
Total current assets	39%
Property and equipment, net	17%
Investment	48%
Total assets	36%
Total current liabilities	49%
Shareholders' equity	34%

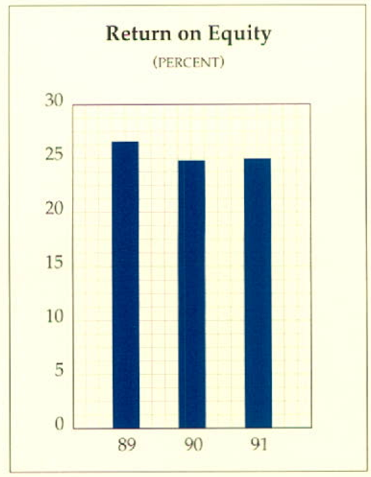
CASH, CASH EQUIVALENTS & SHORT-TERM INVESTMENTS Altera's cash, cash equivalents and short-term investments increased by $16.9 million in 1991 to $40.1 million. The increase included operating cash flow partially offset by expenditures for receivables, property and equipment, and a long-term investment. At year-end 1991, cash, cash equivalents and short-term investments represented 40% of total assets and 50% of total shareholders' equity.



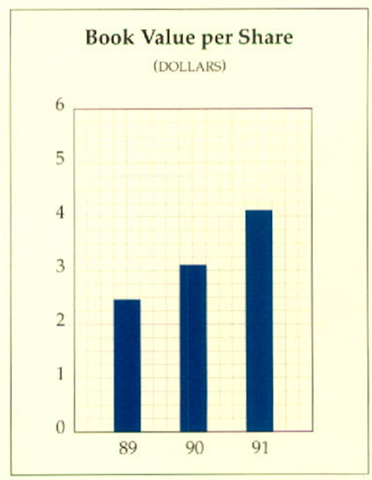
ACCOUNTS RECEIVABLE Accounts receivable grew by 12% from $14.4 million at the end of 1990 to $16.2 million at the end of 1991. Days sales outstanding in receivables have declined due to improved product availability, resulting in more uniform monthly shipments.

INVENTORIES During 1991, Altera decreased inventories from $12.1 million at the end of 1990 to $10.9 million at the end of 1991. The Company reduced its days of inventory on hand by improving production cycle times and by reducing procurement levels.

INVESTMENT During 1990 and 1991, Altera obtained additional wafer fabrication capacity by investing in Cypress Semiconductor (Texas) Inc. (CSTI), a subsidiary of Cypress Semiconductor Corporation. As a result of its investment, Altera received the right to purchase a percentage of wafers produced by CSTI approximately equal to the percentage of Altera's ownership in CSTI. During 1991, Altera committed to increase its investment to a total of $14.9 million, representing less than 20% of the outstanding stock of CSTI. The remaining investment liability of $3.2 million to CSTI is due in 1992.

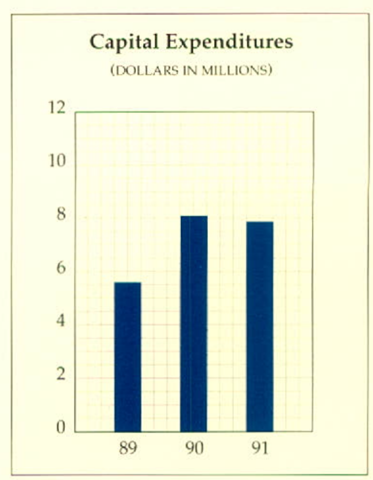


CURRENT LIABILITIES Total current liabilities grew by 49% during 1991 to $20.8 million. The increase of $6.8 million was primarily due to increases in accrued liabilities and in the provision for returns and allowances related to the increase in sales.

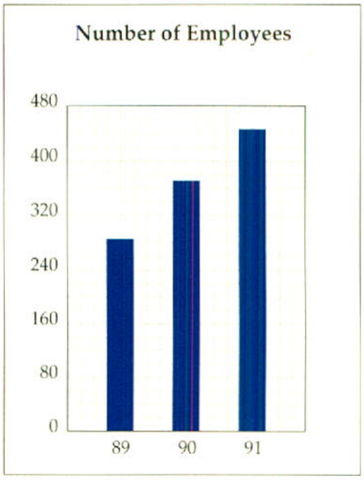


SHAREHOLDERS' EQUITY Shareholders' equity grew by 34% to $81.5 million at the end of 1991. The increase included net income of $17.8 million and $2.0 million in proceeds from stock issued in accordance with the Company's stock plans.

CAPITAL EXPENDITURES Altera made $7.8 million in capital expenditures in 1991, down from $8.1 million in 1990 and up from $5.6 million in 1989. The Company expects to spend approximately $9 million in 1992. These expenditures do not include any amounts invested in CSTI as described previously. Altera's capital expenditures in the past three years and in 1992 are primarily for semiconductor design, test and manufacturing equipment, and electronic data processing software and equipment.

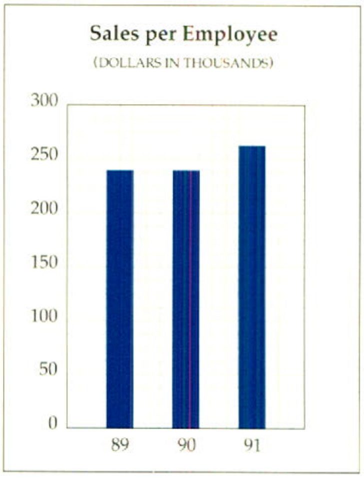


EMPLOYEES Altera's employment increased by 21% from 370 regular employees at the end of 1990 to 446 at the end of 1991. Sales per employee reached $262,000, a record for the Company. By department, 147 employees were in research and development, 160 in manufacturing, 99 in sales, marketing, and applications engineering, and 40 were in finance and administration.



LIQUIDITY & CAPITAL RESOURCES

At December 31, 1991, Altera had $40.1 million of cash, cash equivalents, and short-term investments available to finance future growth and no long-term debt. The Company has available a $5 million bank credit line for short-term financing. The Company also has a banking facility available for standby and commercial letters of credit. Altera believes the available sources of funds and the cash expected to be generated from operations will be adequate to finance current operations and anticipated investments and capital expenditures through 1992.



IMPACT OF CURRENCY & INFLATION

Although Altera entered into contracts for purchases denominated in Japanese yen, the Company purchased the majority of its materials and services in U.S. dollars, and its foreign sales were also billed in U.S. dollars. Accordingly, it has not been subject to substantial currency exchange fluctuations. However, there can be no guarantee that this trend will continue. The effects of inflation upon Altera's financial results have not been significant.

To the Shareholders and Board of Directors of Altera Corporation:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, shareholders' equity, and cash flows present fairly, in all material respects, the financial position of Altera Corporation and its subsidiaries at December 31, 1991 and 1990, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1991, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

Price Waterhouse

PRICE WATERHOUSE
San Jose, California
January 22, 1992

Consolidated Balance Sheets

Assets

(In thousands, except share amounts)	December 31 1991	1990
Current assets:		
Cash and cash equivalents	$ 25,239	$14,285
Short-term investments	14,910	9,000
Total cash, cash equivalents, and short-term investments	40,149	23,285
Accounts receivable, less allowance for doubtful accounts of $385 and $180	16,218	14,444
Inventories	10,896	12,122
Deferred income taxes	4,023	1,045
Other current assets	884	1,012
Total current assets	72,170	51,908
Property and equipment, at cost, less accumulated depreciation and amortization	15,468	13,181
Investment (Note 6)	14,568	9,858
	$102,206	$74,947

Liabilities & Shareholders' Equity

Current liabilities:		
Accounts payable	$ 3,048	$ 2,386
Accrued liabilities	4,226	2,306
Accrued investment liability (Note 6)	3,196	3,983
Accrued compensation	3,270	2,038
Provision for returns and allowances	3,836	1,292
Income taxes payable	3,180	1,932
Total current liabilities	20,756	13,937
Commitments (Note 5 and Note 6)		
Shareholders' equity:		
Common stock; no par value; 40,000,000 shares authorized; 19,793,942 and 19,413,893 shares issued and outstanding	43,919	41,286
Retained earnings	37,531	19,724
	81,450	61,010
	$102,206	$74,947

See accompanying notes to consolidated financial statements.

(In thousands, except per share amounts)	Year Ended December 31 1991	1990	1989
Sales	**$106,862**	$78,304	$58,868
Cost of sales	**43,846**	32,515	23,902
Gross profit	**63,016**	45,789	34,966
Research and development	**14,381**	10,672	9,430
Selling, general, and administrative	**22,423**	16,381	12,391
Operating expenses	**36,804**	27,053	21,821
Income from operations	**26,212**	18,736	13,145
Interest income, net	**1,633**	1,981	2,216
Income before income taxes	**27,845**	20,717	15,361
Provision for income taxes	**10,038**	7,332	4,600
Net income	**$ 17,807**	$13,385	$10,761
Net income per common share and common equivalent	**$ 0.87**	$ 0.67	$ 0.55
Shares and equivalents used in calculation of net income per share	**20,567**	19,992	19,681

See accompanying notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

(In thousands, except share amounts)	Convertible Preferred Stock	Common Stock	Retained Earnings (Deficit)
Balance, December 31, 1988	$ 4,685	$35,055	$(4,422)
Conversion of 1,043,916 shares	(4,685)	4,685	
Issuance of 198,514 shares		556	
Net income			10,761
Balance, December 31, 1989	0	40,296	6,339
Issuance of 476,750 shares		990	
Net income			13,385
Balance, December 31, 1990	0	41,286	19,724
Tax benefit resulting from stock option transactions		677	
Issuance of 380,049 shares		1,956	
Net income			17,807
Balance, December 31, 1991	$ 0	$43,919	$ 37,531

See accompanying notes to consolidated financial statements.

	(In thousands)	1991	1990	1989
		Year Ended December 31		
CASH FLOWS FROM OPERATING ACTIVITIES	Net income	**$ 17,807**	$ 13,385	$10,761
	Adjustments to reconcile net income to net cash provided by operating activities:			
	Depreciation and amortization	**5,807**	4,621	3,425
	Provision for returns and allowances	**2,544**	(265)	151
	Deferred taxes	**(2,301)**	55	(900)
	Changes in assets and liabilities:			
	Accounts receivable, net	**(1,774)**	(4,521)	(3,053)
	Inventories	**1,226**	(4,009)	(2,185)
	Other current assets	**128**	(415)	(29)
	Accounts payable	**662**	(20)	(726)
	Accrued liabilities	**1,920**	(129)	918
	Accrued compensation	**1,232**	398	468
	Income taxes payable	**1,248**	1,130	598
	Cash provided by (used for) operating activities	**28,499**	10,230	9,428
CASH FLOWS FROM INVESTING ACTIVITIES	Capital expenditures	**(7,803)**	(8,082)	(5,611)
	Investment in Cypress subsidiary	**(5,788)**	(5,875)	
	Purchases of short-term investments	**(32,120)**	(28,000)	(16,000)
	Proceeds from short-term investments	**26,210**	24,000	15,000
	Cash provided by (used for) investing activities	**(19,501)**	(17,957)	(6,611)
CASH FLOWS FROM FINANCING ACTIVITIES	Principal payments under debt and lease obligations			(329)
	Change in deposits and other assets			36
	Net proceeds from issuance of capital stock	**1,956**	990	556
	Cash provided by (used for) financing activities	**1,956**	990	263
	Net increase (decrease) in cash and cash equivalents	**10,954**	(6,737)	3,080
	Cash and cash equivalents at beginning of period	**14,285**	21,022	17,942
	Cash and cash equivalents at end of period	**$ 25,239**	$ 14,285	$21,022
	Cash paid during the year for:			
	Income taxes	**$ 11,011**	$ 6,134	$ 4,902

See accompanying notes to consolidated financial statements.

NOTE 1: COMPANY, FORMATION & BUSINESS

Altera Corporation (the Company) designs, develops, manufactures, and markets CMOS programmable logic integrated circuits and associated engineering development software and hardware. The Company was incorporated in California in January 1984.

The Company's export sales were $51.5, $32.6, and $20.0 million for 1991, 1990, and 1989, respectively. Sales to Europe were $23.7, $16.2, and $11.4 million, and to Japan were $21.2, $13.7, and $5.8 million in 1991, 1990, and 1989, respectively. A distributor accounted for 12% of sales in 1991 and another distributor accounted for 10% of sales in 1989.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries: Altera GmbH, Altera France SARL, Altera Italia SARL, Nihon Altera KK, and Altera Foreign Sales Corporation.

CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS Cash equivalents consist of highly liquid investments with original maturities of three months or less. Short-term investments consist of time deposits with original maturities of three months to one year. All investments are recorded at cost, which approximates market.

INVENTORIES Inventories are recorded on a first-in-first-out basis at the lower of standard cost, which approximates actual cost, or market.

DEPRECIATION AND AMORTIZATION Depreciation and amortization are computed using the straight-line method. Estimated useful lives of two to five years are used for equipment and office furniture. Amortization of leasehold improvements is computed using the shorter of the remaining facility lease term or the estimated useful life of the improvements. Depreciation for tax purposes is computed using accelerated methods.

REVENUE RECOGNITION The Company recognizes revenue for product sales upon shipment. Product sales to distributors are made under agreements allowing a limited right-of-return and price adjustments under certain circumstances. Estimated returns and allowances are recorded at the time of shipment.

INCOME TAXES The Company adopted the liability method of accounting for income taxes pursuant to SFAS 96 in 1988, retroactive to the Company's inception. Deferred income taxes are recorded to reflect the tax consequences on future years of differences between the tax basis of assets and liabilities and their financial reporting amounts, based on rates currently in effect.

EARNINGS PER SHARE Net income per share is computed using the weighted average number of common and dilutive common equivalent shares outstanding during the period. Dilutive common equivalent shares consist of stock options and convertible preferred stock, using the treasury stock method. All convertible preferred stock was included in the calculations as if converted on the original date of issuance.

NOTE 3: BALANCE SHEET DETAILS

(In thousands)	December 31 1991	December 31 1990
Inventories:		
Purchased parts and raw materials	**$ 1,721**	$ 1,083
Work in process	**6,995**	8,238
Finished goods	**2,180**	2,801
	$10,896	$12,122
Property and equipment:		
Equipment	**$28,286**	$22,994
Office furniture and equipment	**2,691**	2,294
Leasehold improvements	**1,024**	848
	32,001	26,136
Accumulated depreciation and amortization	**(16,533)**	(12,955)
	$15,468	$13,181

NOTE 4: CREDIT FACILITIES

The Company has available two $5 million bank credit facilities. One facility is available for letters of credit only. The terms of this facility require immediate funding of any draws against any letters of credit issued under the facility. The second facility is available for working capital loans and letters of credit. Both facilities require the Company to maintain a quick ratio of 2:1, a debt to tangible net worth of 0.75, and specified minimum levels of tangible net worth.

NOTE 5: LEASES

The Company leases its facilities under non-cancelable lease agreements. The major facility lease expires in July 1997, at which time the Company has the option to extend the lease for an additional two and one-half year period, followed by three five-year options. The lease requires the Company to pay property taxes, insurance, and maintenance and repair costs.

Future minimum lease payments under all non-cancelable operating leases as of December 31, 1991 are $1,326,000, $1,421,000, $1,463,000, $1,876,000, $1,876,000 and $1,338,000 in 1992, 1993, 1994, 1995, 1996, and thereafter, respectively. Rental expense under all operating leases amounted to $1,964,000, $1,987,000, and $976,000 in 1991, 1990, and 1989, respectively.

NOTE 6: INVESTMENT

Altera Corporation has committed to invest $14.9 million in Cypress Semiconductor (Texas) Inc. (CSTI), a subsidiary of Cypress Semiconductor Corporation. The Company made payments in 1990 and 1991 totaling $11.7 million, and the remaining liability of $3.2 million is committed to be paid in 1992. The Company accounts for this investment, which represents less than 20% of CSTI shares outstanding, under the cost method.

NOTE 7: CAPITAL STOCK

BASIS OF PRESENTATION The Company had previously issued 1,043,916 shares of Series D preferred stock. During May of 1989, the Company's Series D preferred stock automatically converted to common stock. For financial statement purposes, shares of Series D preferred stock have been treated as shares of common stock from their date of issuance.

STOCK OPTION AND PURCHASE PLANS In 1987, the Company reserved 800,000 shares of common stock for the 1987 Stock Option Plan. The Company commenced option grants under the 1987 Stock Option Plan in February 1988. In April 1990 and 1991, the Company reserved an additional 800,000 and 600,000 shares, respectively, for issuance under this plan.

The Company's 1988 Director Stock Option Plan was approved by the shareholders in April 1989. A total of 150,000 shares of common stock are reserved for issuance thereunder. The Plan provides for the periodic issuance of stock options to members of the Company's Board of Directors who are not also employees of the Company.

In 1987, the Company reserved 200,000 shares of common stock for the 1987 Employee Stock Purchase Plan. The Plan permits eligible employees to purchase common stock through payroll deductions, which may not exceed 10% of an employee's compensation, at 85% of the lower of the closing price at the beginning or at the end of each six-month offering period. In April 1990, the Company reserved an additional 200,000 shares for issuance under this plan.

During 1991, the Company received a $677,000 tax benefit on the exercise of non-qualified stock options and on the disqualifying disposition of incentive stock options.

A summary of transactions relating to the Company's stock plans follows:

	Shares Reserved	Shares Subject to Outstanding Options	Per Share Price
Balance at December 31, 1988	870,500	1,214,682	$ 0.05 - 6.50
Shares purchased	(72,063)		$ 0.20 - 4.88
Shares made unavailable by termination of the 1984 plan	(26,995)		
Stock options:			
Granted	(285,800)	285,800	$ 5.50 - 9.13
Exercised		(126,451)	$ 0.20 - 4.88
Canceled	102,004	(102,004)	$ 0.80 - 8.75
Balance at December 31, 1989	587,646	1,272,027	$ 0.05 - 9.13
Shares authorized	1,000,000		
Shares purchased	(67,315)		$ 6.38 - 7.65
Shares made unavailable by termination of the 1984 plan	(23,092)		
Stock options:			
Granted	(1,452,400)	1,452,400	$ 7.25 - 14.38
Exercised		(408,119)	$ 0.35 - 7.88
Canceled	668,144	(668,144)	$ 0.80 - 14.38
Balance at December 31, 1990	712,983	1,648,164	$ 0.10 - 11.13
Shares authorized	600,000		
Shares purchased	(61,047)		$10.31 - 13.49
Shares made unavailable by termination of the 1984 plan	(768)		
Stock options:			
Granted	(402,653)	402,653	$ 0.10 - 26.75
Exercised		(319,002)	$ 0.35 - 10.63
Canceled	70,234	(70,234)	$ 2.00 - 18.13
Balance at December 31, 1991	918,749	1,661,581	$ 0.10 - 26.75

The number of shares for which options were exercisable was approximately 583,000 and 575,000 at December 31, 1991 and 1990, respectively.

NOTE 8: INCOME TAXES

The components of the provision for income taxes were as follows:

(In thousands)	1991	1990	1989
Current tax expense:			
United States	$10,766	$ 5,989	$ 4,632
State	2,335	1,319	1,302
Foreign	89	44	16
Total current	13,190	7,352	5,950
Deferred tax, United States	(2,978)	55	(1,100)
Tax credits	(174)	(75)	(250)
Total provision for income taxes	$10,038	$ 7,332	$ 4,600

Deferred income taxes were provided for the temporary differences between the financial reporting basis and tax basis of the Company's assets and liabilities. The major temporary differences are non-deductible financial statement accruals, and reserves and expenses that are capitalized for tax purposes.

The provision for taxes reconciles to statutory taxes as follows:

(In thousands)	1991	1990	1989
Tax provision at U.S. statutory rates	$ 9,467	$ 7,044	$ 5,222
State taxes, net of federal benefit	1,541	871	859
Foreign sales corporation	(659)	(393)	(264)
Benefit of temporary differences reversing for which tax not originally provided	(454)	(457)	(1,128)
Tax credits	(174)	(75)	(250)
Other, net	317	342	161
Tax provision	$10,038	$ 7,332	$ 4,600

Corporate Directory

Board of Directors

Rodney Smith
Chairman, President and Chief Executive Officer

Paul Newhagen
Vice President, Finance and Administration
Chief Financial Officer and Secretary

Michael A. Ellison
General Partner, Cable & Howse Ventures

T. Peter Thomas
General Partner, Institutional Venture Partners

Corporate Officers

Rodney Smith
President and Chief Executive Officer

Denis Berlan
Vice President, Product Engineering

Erik Cleage
Vice President, Marketing

Robert F. Hartmann
Vice President, Business Development

Clive McCarthy
Vice President, Development Engineering

Paul Newhagen
Vice President, Finance and Administration

James Sansbury
Vice President, Technology

Sandra Scarsella
Vice President, Human Resources

Bipin Shah
Vice President, Operations

Peter Smyth
Vice President, Sales

Corporate Headquarters

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San Jose, California 95134-2020
(408) 894-7000

Corporate Counsel

Wilson, Sonsini, Goodrich & Rosati
Palo Alto, California

Registrar/Transfer Agent

Manufacturers Hanover Trust Company
of California
San Francisco, California

Independent Accountants

Price Waterhouse
San Jose, California

Design/Production Altera Corporation

ALTERA

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