

ALTERA CORP  
Form DEF 14A  
March 28, 2008

**SCHEDULE 14A INFORMATION**

**Proxy Statement Pursuant to Section 14(a)  
of the Securities Exchange Act of 1934**

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement.

**Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2)).**

Definitive Proxy Statement.

Definitive Additional Materials.

Soliciting Materials Pursuant to Rule 14a-12.

**ALTERA CORPORATION**

(Name of Registrant as Specified in Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to the Exchange Act Rule 0-11 (Set forth the amount on which the filing fee is calculated and state how it was determined):

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(4) Proposed maximum aggregate value of transaction:

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.. Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS**

**May 13, 2008**

**4:00 p.m.**

The annual meeting of stockholders of Altera Corporation, a Delaware corporation, will be held on Tuesday, May 13, 2008, at 4:00 p.m. local time, at Altera's offices at 101 Innovation Drive, San Jose, California 95134, for the following purposes:

- (1) To elect directors to serve until the next annual meeting of stockholders or until their successors are elected and qualified.
  - (2) To approve an amendment to the 2005 Equity Incentive Plan to increase by 5,000,000 the number of shares of common stock reserved for issuance under the plan.
  - (3) To approve a second amendment to the 2005 Equity Incentive Plan regarding non-employee director equity awards.
  - (4) To approve an amendment to the 1987 Employee Stock Purchase Plan to increase by 1,000,000 the number of shares of common stock reserved for issuance under the plan.
  - (5) To ratify the appointment of PricewaterhouseCoopers LLP as our independent registered public accounting firm for the fiscal year ending December 26, 2008.
  - (6) To transact such other business as may properly come before the meeting or any postponement or adjournment of the meeting.
- The foregoing items of business are more fully described in the attached proxy statement. Stockholders who owned shares of our common stock at the close of business on March 14, 2008 are entitled to notice of, and to vote at, the meeting.

All stockholders are cordially invited to attend the meeting in person. However, to assure your representation at the meeting, you are urged to vote your shares as soon as possible.

You may choose to vote your shares in one of the following ways: (1) via the Internet at Broadridge Investor Communication Solutions' voting website ([www.proxyvote.com](http://www.proxyvote.com)); (2) telephonically by calling the telephone number shown in the proxy card; (3) by voting in person at the annual meeting; or (4) by requesting, completing and mailing in a paper proxy card, as outlined in the Notice of Internet Availability of Proxy Materials ( Notice of Internet Availability ).

For the Board of Directors

ALTERA CORPORATION

/s/ Katherine E. Schuelke

Katherine E. Schuelke

*Secretary*

San Jose, California

March 28, 2008

**YOUR VOTE IS IMPORTANT.**

**PLEASE CAST YOUR VOTE AS INSTRUCTED IN THE NOTICE OF INTERNET AVAILABILITY OF PROXY MATERIALS, OVER THE INTERNET, OR BY TELEPHONE, AS PROMPTLY AS POSSIBLE. YOU MAY ALSO REQUEST A PAPER PROXY CARD TO SUBMIT YOUR VOTE BY MAIL, IF YOU PREFER. WE ENCOURAGE YOU TO VOTE VIA THE INTERNET.**

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**ALTERA CORPORATION**

**PROXY STATEMENT FOR  
ANNUAL MEETING OF STOCKHOLDERS**

**MAY 13, 2008**

**INFORMATION CONCERNING SOLICITATION AND VOTING**

**General**

The enclosed proxy is solicited on behalf of the board of directors of Altera Corporation, a Delaware corporation, for use at our annual meeting of stockholders to be held on May 13, 2008, or at any adjournment(s), continuation(s), or postponement(s) of the meeting.

We use a number of abbreviations in this proxy statement. We refer to Altera Corporation as Altera, or we, us, or our. References to fiscal 2007 means the 2007 fiscal year, which began on December 30, 2006 and ended on December 28, 2007. Our 2008 annual meeting of stockholders is simply referred to as the annual meeting or the meeting.

Our principal executive offices are located at 101 Innovation Drive, San Jose, California 95134. Our telephone number is (408) 544-7000.

We anticipate that the Notice of Internet Availability will be mailed on or about March 28, 2008 to all stockholders entitled to vote at the annual meeting.

This proxy statement and our Annual Report on Form 10-K for the fiscal year ended December 28, 2007 ( Annual Report, and collectively with our letter to stockholders and this proxy statement, the Proxy Materials ) have been made available to all stockholders entitled to vote at the annual meeting and who received a Notice of Internet Availability.

**Paper copies of the Proxy Materials may be obtained by following the instructions on the Notice of Internet Availability. Upon request, we will provide any exhibit listed in the Annual Report.**

**Internet Availability of Proxy Materials**

Under rules recently adopted by the U.S. Securities and Exchange Commission ( SEC ), we are now furnishing Proxy Materials to our stockholders over the Internet, rather than mailing printed copies of those materials to each stockholder. We are taking advantage of these rules to reduce the expenses of delivering voting materials to our stockholders and to minimize the environmental impact of printing and mailing hard copies of the Proxy Materials. Each stockholder who receives a Notice of Internet Availability has the right to vote on all matters presented at the meeting.

You will not receive a printed copy of the Proxy Materials unless you request one. Instead, the Notice of Internet Availability will provide instructions as to how you may: (1) access and review the Proxy Materials on the Internet and (2) access your proxy to vote on the Internet. If you received a Notice of Internet Availability by mail and would like to receive a printed copy of the Proxy Materials, please follow the instructions included in the Notice of Internet Availability. If you share an address with another stockholder and have received only one Notice of Internet Availability, you may write or call us to request a separate copy of these materials at no cost to you.

### **Record Date and Shares Outstanding**

Stockholders who owned shares of our common stock at the close of business on March 14, 2008, referred to as the record date, are entitled to notice of, and to vote at, the annual meeting. On the record date, we had 301,782,518 shares of common stock issued and outstanding.

### **How Your Proxy Will Be Voted**

If you submit your proxy whether via the Internet, by telephone, in person or by mail the shares represented by your proxy will be voted at the annual meeting in accordance with your instructions. If you submit a proxy by mail, but do not fill out the voting instructions on the proxy card, the shares represented by your proxy will be voted in favor of Proposals 1, 2, 3, 4 and 5. In addition, if any other matters properly come before the annual meeting, it is the intention of the persons named on your voting form to vote the shares they represent as directed by the board of directors. We have not received notice of any other matters that may properly be presented at the annual meeting.

### **Revoking Your Proxy**

You may revoke your proxy at any time prior to the annual meeting by: (1) submitting a later-dated vote, in person at the annual meeting, via the Internet, by telephone, or by mail, or (2) delivering instructions to us, care of our Secretary, at the address of our principal executive offices. Any notice of revocation sent to us must include the stockholder's name and must be received prior to the meeting to be effective. Your attendance at the annual meeting after having submitted a valid proxy will not in and of itself constitute a revocation of your proxy. You will be required to give oral notice of your intention to vote in person to the inspector of elections at the annual meeting. If your shares are held in street name, you should follow the directions provided by your broker, bank or other nominee regarding how to revoke your proxy.

### **Voting**

#### ***Tabulation; Quorum***

Each share of common stock outstanding on the record date is entitled to one vote. Cumulative voting is not permitted. The inspector of elections appointed for the annual meeting tabulates the votes. A quorum, which is a majority of the outstanding shares as of the record date, must be present in order to hold the meeting and to conduct business. Your shares will be counted as being present at the meeting if you appear in person at the meeting, if you vote your shares by telephone or over the Internet, or if you submit a properly executed proxy card. Shares represented by proxies marked with abstentions or represented by broker non-votes (as described in further detail below) will be counted as shares that are present for purposes of determining whether a quorum exists. Votes against a particular proposal will be counted both to determine the presence or absence of a quorum and to determine whether the requisite majority of voting shares has been obtained.

#### ***Treatment of Abstentions; Broker Non-Votes***

In the absence of controlling precedent to the contrary, we intend to treat abstentions and broker non-votes in the following manner. A broker non-vote occurs when a broker, bank or other nominee holding shares for your account does not vote on a particular proposal because the nominee does not have the discretionary authority to vote on that item and has not received voting instructions from you. Broker non-votes on a proposal are not counted or deemed to be present or represented for the purpose of determining whether stockholders have approved that proposal. As a result, broker non-votes do not have an effect on any of the proposals. For Proposal 1, each director must receive the majority of votes cast with respect to that director. Shares not present at the meeting and shares voting abstain have no effect on the election of directors. For Proposals 2, 3, 4 and 5, which require the affirmative vote of the majority of the shares of common stock present or represented by proxy and entitled to vote, abstentions are treated as shares present or represented and entitled to vote, so abstaining has the same effect as a negative vote.

**Solicitation of Proxies**

We pay for the cost of this solicitation. We have retained Georgeson, Inc. to assist with the solicitation of proxies for a fee not to exceed \$8,000, plus reimbursement for out-of-pocket expenses. We may reimburse brokerage firms and other persons representing beneficial owners of shares for their expenses in forwarding soliciting materials to such beneficial owners. Proxies may also be solicited personally or by telephone, telegram, or facsimile by certain of our directors, officers, and other employees, without additional compensation.

**PROPOSAL ONE ELECTION OF DIRECTORS**

Our board of directors is currently comprised of seven members, six of whom have been nominated for re-election at this year's annual meeting; Robert W. Reed has decided to retire and will not seek re-election. In accordance with our bylaws, the board of directors has voted to reduce the number of directors on the board from seven to six effective as of May 13, 2008, the date of our annual meeting.

The nominating and governance committee of the board of directors has nominated the persons named below for election as directors at the annual meeting. Unless otherwise directed, the proxy holders will vote the proxies received by them for the nominees named below. If any nominee is unable or declines to serve as a director at the annual meeting, the proxies will be voted for any nominee who is designated by the present board of directors to fill the vacancy. It is not expected that any nominee will be unable or will decline to serve as a director. The directors elected at the annual meeting will hold office until the next annual meeting or until their successors are elected and qualified.

Directors are elected by a majority of the votes cast at the annual meeting except in the case of a contested election. A contested election occurs when the number of nominees exceeds the number of directors to be elected, in which case directors are elected by a plurality of the votes cast. A majority of votes cast means that the number of votes cast for a director exceeds the number of votes cast against that director. If a director nominee, who is serving as a director at the time of the election, does not receive a majority of the votes cast, such nominee will tender his/her resignation to the board of directors. The nominating and governance committee will then make a recommendation to the board of directors to either accept or reject the resignation. The board of directors will act on the nominating and governance committee's recommendation and publicly disclose its reasons and decision within ninety days from when the election results are certified. The director who tenders his/her resignation does not participate in the board's decision.

The names of the nominees and certain information about them are set forth below.

Name of Nominee	Age	Position(s) with Altera	Director Since
John P. Daane	44	Chairman of the Board, President, and Chief Executive Officer	2000
Robert J. Finocchio, Jr.	56	Lead Independent Director(1)	2002
Kevin McGarity	62	Director	2004
Gregory E. Myers	58	Director	2007
John Shoemaker	65	Director	2007
Susan Wang	57	Director	2003

(1) Effective May 13, 2008, the date of the annual meeting, Mr. Finocchio will replace Robert W. Reed as our Lead Independent Director. Mr. Reed decided to retire and will not seek re-election at this year's annual meeting. There is no family relationship between any of our directors or executive officers.

JOHN P. DAANE joined us as President and Chief Executive Officer in November 2000 and was elected as one of our directors in December 2000. He was elected chairman of the board of directors in May 2003. Prior to

joining us, Mr. Daane spent fifteen years at LSI Logic Corporation, a semiconductor manufacturer, most recently as Executive Vice President, Communications Products Group, with responsibility for ASIC technology development and the Computer, Consumer, and Communications divisions.

ROBERT J. FINOCCHIO, JR. has served as one of our directors since January 2002. He has been a dean's executive professor at Santa Clara University, Leavey School of Business, since September 2000. Prior to joining us, he served as Chief Executive Officer and President of Informix Corporation, an information management software company, from July 1997 to July 1999 and as Chairman of Informix from July 1997 to September 2000. From December 1988 to May 1997, Mr. Finocchio was employed by 3COM Corporation, a global data networking company. Mr. Finocchio also serves as a director of Echelon Corporation and Sun Microsystems, Inc.

KEVIN MCGARITY has served as one of our directors since March 2004. From 1988 until 1999, he served as Senior Vice President of Worldwide Marketing and Sales for Texas Instruments, Inc., a diversified semiconductor company. He currently is a consultant to global companies in the semiconductor industry. Mr. McGarity also serves as a director of Fairchild Semiconductor International, Inc.

GREGORY E. MYERS has served as one of our directors since October 2007. In 2005, Mr. Myers retired from his position as Vice President and Chief Financial Officer of Symantec Corporation, a computer software company. Prior to Symantec, Mr. Myers spent five years at Novell Corporation in various financial roles. Currently, he is a member of the board of directors at Packeteer Corporation.

JOHN SHOEMAKER has served as one of our directors since March 2007. In 2004, Mr. Shoemaker retired from his position as Executive Vice President of Sun Microsystems, Inc., a network computing company. Prior to joining Sun Microsystems, Mr. Shoemaker served in a number of senior executive positions with Xerox Corporation. Mr. Shoemaker also serves as chairman of the board of SonicWALL, Inc. and as a director of Extreme Networks, Inc.

SUSAN WANG has served as one of our directors since October 2003. In 2002, Ms. Wang retired from her position as Executive Vice President and Chief Financial Officer of Solectron Corporation, a worldwide provider of electronics manufacturing services, where she worked from 1986. She is a certified public accountant. Ms. Wang also serves as a director of Avanex Corporation and Nektar Therapeutics.

#### **Vote Required and Board of Directors Recommendation**

Those nominees who receive a majority of the votes cast shall be elected as directors. Any nominee who does not receive a majority of the votes cast shall tender his/her resignation to the board of directors, and the board of directors shall act on such resignation as specified above. **Our board of directors recommends that the stockholders vote FOR the nominees listed above.**

#### **Corporate Governance**

We believe that good corporate governance is important to ensure that we are managed for the long-term benefit of our stockholders. Our board of directors has adopted corporate governance guidelines to assist it in fulfilling its responsibilities to stockholders and to our employees, customers, suppliers, and local communities in which we operate.

We have a code of business conduct and ethics that applies to our officers, directors, and employees, and is designed to promote compliance with the laws applicable to our business, accounting standards, and proper and ethical business methods and practices. Additionally, the audit committee has adopted a code of ethics for senior financial officers and certain other employees of the finance department. If we make any material amendments to the code of ethics applicable to our principal executive officer, principal financial officer, principal accounting officer and controller, or persons performing similar functions, or grant any waiver from any provision of the code to any such person, we will promptly disclose the nature of the amendment or waiver on our website at [www.altera.com](http://www.altera.com).



Our corporate governance guidelines, together with our current committee charters and the two codes described above, are available, free of charge, in the Corporate Governance section of our website at [www.altera.com](http://www.altera.com), or by calling our Investor Relations Department at (408) 544-7000, or by writing to us at Altera Corporation, 101 Innovation Drive, San Jose, California 95134, Attn: Investor Relations.

Our policies and practices reflect corporate governance initiatives that are in compliance with the listing requirements of the Nasdaq Stock Market ( NASDAQ ) and the corporate governance requirements of the Sarbanes-Oxley Act of 2002, including:

The board of directors has adopted clear corporate governance policies;

Five of the six directors standing for re-election at the annual meeting are independent of us and our management;

The independent directors meet regularly without management present;

All members of the audit committee, compensation committee, and nominating and governance committee are independent directors;

The board of directors has elected a lead independent director;

The charters of the board committees clearly establish their respective roles and responsibilities;

We have a code of business conduct and ethics that applies to all of our officers, directors, and employees;

We have a code of ethics for senior financial officers that applies to our principal executive officer, principal financial officer, all other officers in the finance department as well as certain other employees of the finance department; and

We have a hotline available to all employees, and our audit committee has procedures in place for the anonymous submission of any employee complaint, including those relating to accounting, internal controls, or auditing matters.

#### **Director Independence**

In accordance with current NASDAQ listing standards, the board of directors, on an annual basis, affirmatively determines the independence of each director and nominee for election as a director, including all elements of independence set forth in the NASDAQ listing standards. The director independence standards are set forth in our corporate governance guidelines, which are available, free of charge, in the Corporate Governance section of our website at [www.altera.com](http://www.altera.com).

It is the policy of the board of directors that a significant majority of the directors be independent. A director is independent if he/she has no material relationship with us or our affiliates (either directly or indirectly as a partner, stockholder or officer of an organization that has a relationship with us or our affiliates) and meets the standards for independence as defined by applicable law and the rules of NASDAQ. Such relationships can include commercial, industrial, banking, consulting, legal, accounting, charitable and familial relationships, among others.

More specifically, a director is not considered independent if:

he/she is currently employed, or has been employed within the past three years, by us or any of our affiliates;

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the director (or his/her immediate family member as defined by NASDAQ) accepted compensation from us or any of our affiliates in excess of \$100,000 during any twelve month period within the past three years (other than compensation for board service, retirement plan benefits, or non-discretionary compensation, or compensation paid to a family member who is an employee (other than an executive officer));

the director has an immediate family member who is, or has been in the past three years, employed by us or any of our affiliates as an executive officer;

the director (or any immediate family member) is or has been a partner, controlling stockholder or an executive officer of any business to which we made, or from which we received, payments (other than those which arise solely from investments in our securities) that exceed five percent of such entity's consolidated gross revenues for that year, or \$200,000, whichever is more, in any of the past three years;

the director (or his/her immediate family member) is or has been employed as an executive officer of another entity where any of our executive officers serve on that entity's compensation committee;

he/she (or any immediate family member) is a current partner of our independent registered public accounting firm, PricewaterhouseCoopers LLP (PricewaterhouseCoopers), or either the director (or an immediate family member) has been a partner or employee of PricewaterhouseCoopers in the past three years and worked on our audit during that time; or

the director participated in the preparation of our (or any of our current subsidiaries') financial statements at any time during the past three fiscal years.

The determination of director independence is made during the annual review process; the board considers relationships that the board members (and those of their immediate family members) have with us and our affiliates and other potential conflicts of interest. Based on the most recent review, there were no transactions, arrangements or relationships between us (or our affiliates) and any board member that would impair the independence of any board member.

Currently, five of the six directors nominated for re-election meet the standards for independence as defined by NASDAQ, with John P. Daane, our President and Chief Executive Officer (CEO), being the only director who is not independent. Mr. Daane is chairman of the board of directors, and Robert W. Reed is our lead independent director as of March 28, 2008, the date this proxy statement is made available. Mr. Reed will be retiring from the board of directors effective May 13, 2008, the date of the annual meeting; Robert J. Finocchio, Jr. will replace Mr. Reed as our lead independent director at that time.

## **Board of Directors and Committees**

### ***Board Meetings***

During fiscal 2007, the board of directors held thirteen meetings. Each director attended at least seventy-five percent of the aggregate number of meetings of the board of directors and meetings held by all committees of the board on which such director served. Our independent directors hold executive sessions without management present at most meetings of the board of directors. We expect each of our directors to attend the annual meeting every year, unless extenuating circumstances prevent their attendance. All of our then-current directors attended last year's annual meeting.

### ***Stockholder Communications with Board of Directors***

Stockholders wishing to communicate with a board member, or the full board, may send a written communication to us, care of our Secretary, at the address of our principal executive offices. Our Secretary will forward the communication to the board or to any individual director or directors to whom the communication is addressed unless the communication is unduly hostile, threatening, illegal, or harassing, in which case our Secretary has the authority to discard the communication or take appropriate legal action regarding the communication.

***Committee Membership***

Below is a summary of our committee structure and membership information as of March 28, 2008, the date this proxy statement is made available.

- (1) Mr. Reed will be retiring from the board of directors effective May 13, 2008, and Ms. Wang will replace him as chairman of the audit committee at that time.
- (2) Mr. Shoemaker will replace Mr. McGarity as chairman of the compensation committee effective May 13, 2008, the date of the annual meeting.

***Audit Committee***

The current members of the audit committee are Robert W. Reed (Chairman), Robert J. Finocchio, Jr., Gregory E. Myers and Susan Wang, each of whom is: (1) independent as that term is defined in Section 10A of the Securities and Exchange Act of 1934, as amended (the Exchange Act); (2) independent as defined by current NASDAQ listing requirements; and (3) financially literate and has the requisite financial sophistication as required by NASDAQ rules applicable to issuers listed on NASDAQ. In addition, the board of directors has determined that Mr. Reed, Mr. Finocchio, Mr. Myers and Ms. Wang each meet the criteria of an audit committee financial expert within the meaning of the SEC's regulations. Mr. Reed will be retiring from the board of directors effective May 13, 2008, and Ms. Wang will replace him as chairman of the audit committee on that date. The audit committee held nine meetings during fiscal 2007.

The purpose of the audit committee is to oversee: (1) the integrity of reported financial results; (2) the quality and adequacy of disclosures; (3) the soundness and effectiveness of our accounting policies and internal controls over financial reporting; (4) our compliance with significant applicable financial, legal, and ethical requirements; (5) the independence and performance of our independent registered public accounting firm ( external auditors ) and internal auditors; and (6) communications among the external auditors, internal auditors, financial and senior management, and the board of directors. The audit committee has ultimate authority and responsibility to select, approve the compensation of, evaluate and, when appropriate, replace our external auditors. The audit committee also has the sole authority to hire and review the performance of our Senior Director of Internal Audit and Compliance and to review and approve the scope of internal audit plans. The audit committee has established procedures for: (a) the receipt, retention, and treatment of complaints received by us

regarding accounting, internal controls, or auditing matters; and (b) the confidential, anonymous submission by our employees of concerns regarding questionable accounting or auditing matters. Additional information regarding the audit committee and its members is contained in the Audit Committee Report beginning on page 32.

#### ***Compensation Committee***

The current members of the compensation committee are Kevin McGarity (Chairman) and John Shoemaker, both of whom are independent as defined by current NASDAQ listing requirements. Effective May 13, 2008, the date of the annual meeting, Mr. Shoemaker will replace Mr. McGarity as chairman. The compensation committee held eight meetings during fiscal 2007.

The purposes of the compensation committee are to: (1) evaluate and establish the CEO's compensation in consultation with the independent members of the board of directors; (2) evaluate and establish the compensation of other executive officers; (3) annually lead the board of directors in a discussion of the CEO's performance; and (4) evaluate and make recommendations to the board of directors regarding the compensation of directors.

In addition, the compensation committee has the sole authority to engage outside advisers to assist in its work, such as compensation consultants. Additional information regarding the compensation committee is contained in the Compensation Committee Report on page 32.

#### ***Compensation Committee Interlocks and Insider Participation***

Mr. McGarity and Mr. Shoemaker were not at any time an officer or employee of the company. In addition, none of our executive officers serves as a member of the board of directors or compensation committee of any company that has one or more of its executive officers serving as a member of our board of directors or compensation committee.

#### ***Nominating and Governance Committee***

The current members of the nominating and governance committee are Robert J. Finocchio, Jr. (Chairman) and John Shoemaker, both of whom are independent as defined by current NASDAQ listing requirements. From May 2007 to September 2007, Mr. Finocchio was the sole member of the nominating and governance committee. Mr. Shoemaker joined the committee effective September 11, 2007. Consequently, the nominating and governance committee held only one formal meeting in fiscal 2007, although Mr. Finocchio was actively engaged in identifying qualified candidates for nomination and election to the board of directors before Mr. Shoemaker joined the committee.

The purposes of the nominating and governance committee are to: (1) identify individuals qualified to become members of the board of directors and to nominate directors for election; (2) lead the board of directors in its annual performance review; and (3) review and make recommendations to the board of directors concerning corporate governance matters. As part of its annual performance review process, the nominating and governance committee seeks input from each board member regarding the performance of individual directors, each committee, and the board as a whole. The committee reports this information to the board and also takes into account the results of this annual performance review in its decisions regarding director nominations. Additional information regarding the nominating and governance committee and its members is contained in the Nominating and Governance Committee Report on page 12.

#### ***Director Compensation***

We pay our non-employee directors an annual retainer for board and committee service only. In February 2008, the board of directors approved increases in the annual retainers that will be paid for board and committee service effective on May 13, 2008, the date of the annual meeting. The increases were made so that total cash compensation would be at the 50<sup>th</sup> percentile of the peer companies listed in the Peer Group and Benchmarking section on page 16. The board also approved an amendment related to equity compensation, as described in further detail below. The payment schedule applicable to board and committee service from the date of our last annual meeting of stockholders through May 12, 2008, together with the new payment schedule, are described

more fully in the chart below, along with other benefits available to our directors. The retainer payments are made on the date of each year's annual meeting of stockholders and are pro-rated if a director's service begins subsequent to the date of the annual meeting.

Annual Retainer	For Service from May 8, 2007 to May 12, 2008	For Service from May 13, 2008 to 2009 Annual Meeting of Stockholders
Board Membership	\$40,000	\$50,000
Audit Committee	\$10,000 Chair	\$20,000 Chair
	\$5,000 Member	\$12,000 Member
Compensation Committee	\$8,000 Chair	\$13,000 Chair
	\$4,000 Member	\$10,000 Member
Nominating and Governance Committee	\$8,000 Chair	\$10,000 Chair
	\$4,000 Member	\$6,000 Member
Lead Independent Director	\$5,000	\$5,000

**Other Director Benefits**

Medical, Dental, and Vision Insurance Coverage	Equivalent to benefits generally available to U.S.-based employees	Benefits no longer provided
Equity Compensation <i>Overview of Equity Compensation Applicable to Fiscal 2007</i>	Described in further detail below	Described in further detail below

Each non-employee director receives non-statutory stock options under our 2005 Equity Incentive Plan, referred to as the 2005 Plan. When a non-employee director joins the board, he/she receives an initial stock option grant of 40,000 shares (the Initial Grant), which vest as follows: twenty-five percent on the first anniversary of the election and the remainder in equal monthly amounts over the next thirty-six months. Effective on the date of each annual stockholders meeting, each non-employee director who is re-elected receives an option grant of 10,000 shares (a Succeeding Grant), which vest monthly in twelve equal amounts. The first Succeeding Grant following the Initial Grant is pro-rated (based on the number of months between the director's initial election to the board and the next annual meeting of stockholders) since he/she will not have served an entire year on the board prior to the next annual stockholders meeting. Vesting of Initial and Succeeding Grants is conditioned on continuing service on the board of directors. The term of the grant is ten years. The exercise price of the stock option grants is equal to the fair market value of our stock on the grant date. Non-employee directors are also eligible to receive other types of awards under the 2005 Plan (including restricted stock, restricted stock units, bonus stock, and stock appreciation rights), but such awards are discretionary and are not automatic. From 2001 through 2004, director stock option grants contained a retirement provision allowing the options to be exercised for up to one year following retirement, provided that the director had completed ten years of service as a director prior to retirement. This practice was discontinued upon the adoption of the 2005 Plan. For the option grants that contain the retirement provision, Mr. Reed currently qualifies for the retirement benefit; Mr. Finocchio, Mr. McGarity and Ms. Wang could potentially recognize a benefit from the provision in the future.

*Overview of Equity Compensation Applicable to Fiscal 2008*

Subject to stockholder approval at the annual meeting, non-employee directors will no longer receive automatic stock option grants upon joining or being re-elected to the board of directors. Instead, at the discretion of the compensation committee, when a non-employee director joins the board, he/she may be granted either: (i) up to a maximum number of shares subject to a restricted stock unit (RSU) and/or a restricted stock grant having an aggregate fair market value (i.e., the closing price of our common stock on the date of grant, as reported on NASDAQ) equal to \$300,000, as measured on the date of grant, or (ii) up to a maximum aggregate number of 40,000 shares subject to a stock option and/or stock appreciation right (SAR) (the Initial Grant).

Subject to stockholder approval at the annual meeting, following the date of each annual stockholders meeting, each non-employee director who is re-elected may be granted, at the discretion of the compensation committee, either: (i) up to a maximum number of shares subject to an RSU and/or a restricted stock grant having an aggregate fair market value equal to \$150,000, as measured on the date of grant, or (ii) up to a maximum aggregate number of 20,000 shares subject to a stock option and/or SAR (a Succeeding Grant ).

RSUs and restricted stock grants vest and are exercisable as determined by the compensation committee, provided that RSUs and restricted stock vest over a minimum of three years as measured from the date of grant. The term of any stock option and/or SAR grant is ten years. The exercise price of any stock option and/or SAR grant is equal to the fair market value of our stock on the grant date. Non-employee directors are also eligible to receive other types of awards under the 2005 Plan (including bonus stock), but such awards are discretionary and are not automatic.

In addition, each non-employee director is eligible to defer his/her annual compensation, but not expense reimbursements, into our Non-Qualified Deferred Compensation Plan ( Deferred Compensation Plan ). We incur incidental expenses for administration of the Deferred Compensation Plan, and our tax benefit for payments to such directors is delayed until funds (including earnings or losses on the amounts invested in the plan) are eventually distributed from the plan. We do not pay any additional compensation or guarantee minimum returns to our directors as a result of their participation in the Deferred Compensation Plan. The plan is described in further detail under the Non-Qualified Deferred Compensation section on page 30.

In February 2008, the board adopted stock ownership guidelines that provide that each director should own, within five years of the institution of the requirement, 5,500 shares of our common stock. The guidelines provide that an individual may request that the compensation committee suspend the ownership guidelines based on personal hardship.

The following table summarizes the total compensation received by each of our directors in fiscal 2007.

**DIRECTOR COMPENSATION**

Name(1)	Fees Earned or	Stock	Option	Non-Equity	All Other	Total
	Paid in Cash			Awards		
(a)	(\$)(2)	(\$)	(\$)(3)	(\$)	(\$)	(\$)
	(b)	(c)	(d)	(e)	(f)	(g)
Robert W. Reed(4)	55,000		88,345			143,345
Robert J. Finocchio, Jr.(5)	53,000		117,482			170,482
Kevin McGarity(6)	48,000		135,127			183,127
Gregory E. Myers(7)	26,250		17,152			43,402
John Shoemaker(8)	54,000		72,662			126,662
Susan Wang(9)	45,000		130,717			175,717

- (1) Mr. Daane, our Chairman of the Board, President, and Chief Executive Officer, does not receive any compensation for his service as a member of the board of directors.
- (2) Includes amounts deferred into our Deferred Compensation Plan.
- (3) Amounts shown in column (d) do not reflect compensation actually received by the director. Instead, the amounts represent the compensation cost we recognized in fiscal 2007, in accordance with Statement of Financial Accounting Standards No. 123, as revised, Share-Based Payment ( FAS 123R ), disregarding adjustments for forfeiture assumptions. For a discussion of valuation assumptions, see Note 8 to our 2007 Consolidated Financial Statements included in our Annual Report for the year ended December 28, 2007. With respect to Messrs. Reed, Finocchio, and McGarity and Ms. Wang, the column (d) amounts include amounts related to the annual stock option grant of 10,000 shares on May 8, 2007, the date of last year's annual meeting, as well as grants made in prior years. With respect to Mr. Shoemaker, this includes amounts

related to: (i) the Initial Grant on March 19, 2007, the date he joined our board of directors, as well as (ii) the pro-rated Succeeding Grant of 1,667 shares on May 8, 2007. As for Mr. Myers, this reflects the amount related to the Initial Grant on October 15, 2007, the date he joined our board of directors.

The following table sets forth information with respect to stock option grants made during 2007 to our directors. The vesting schedule and grant term is described in further detail in the Overview of Equity Compensation Applicable to Fiscal 2007 section on page 9.

Name (a)	Grant Date (b)	All Other Stock Awards: Number of Shares of Stock or Units (#) (c)	All Other Option Awards: Number of Securities Underlying Options (#)(A) (d)	Exercise or Base Price of Option Awards (\$/Sh)(B) (e)	Grant Date Fair Value of Stock and Option Awards \$(C) (f)
Robert W. Reed	5/8/07		10,000	23.52	87,078
Robert J. Finocchio, Jr.	5/8/07		10,000	23.52	87,078
Kevin McGarity	5/8/07		10,000	23.52	87,078
Gregory E. Myers	10/15/07		40,000	23.60	338,644
John Shoemaker	3/19/07		40,000	20.64	326,056
	5/8/07		1,667	23.52	14,516
Susan Wang	5/8/07		10,000	23.52	87,078

(A) Represents the number of non-statutory stock options granted under our 2005 Plan in 2007.

(B) The exercise price for each stock option grant shown here is the fair market value (i.e., the closing price) of our common stock on the date of grant, as reported on NASDAQ.

(C) Represents the full grant date fair value of each stock option grant, computed in accordance with FAS 123R.

(4) As of December 28, 2007, Mr. Reed had 75,000 options outstanding, of which 70,417 were exercisable. Mr. Reed deferred \$55,000 (the total amount listed in column (b) of the Director Compensation table on page 10) into our Deferred Compensation Plan. In addition, Mr. Reed acquired 30,000 shares upon exercise of stock options received pursuant to our 1998 Director Stock Option Plan (which was replaced by the 2005 Plan in May 2005). The value realized on exercise was \$322,898, which represents the difference between the exercise price and the fair market value of the common stock on the date of exercise.

(5) As of December 28, 2007, Mr. Finocchio had 93,333 options outstanding, of which 88,750 were exercisable.

(6) As of December 28, 2007, Mr. McGarity had 71,667 options outstanding, of which 62,917 were exercisable.

(7) Mr. Myers joined our board of directors and became a member of the audit committee on October 15, 2007. As of December 28, 2007, Mr. Myers had 40,000 options outstanding, of which none were exercisable.

(8) Mr. Shoemaker joined our board of directors and the compensation committee on March 19, 2007, and became a member of the nominating and governance committee on September 11, 2007. Therefore, he earned a pro-rated amount of: (a) \$7,334 for his board and compensation committee service, and (b) \$2,666 for service on the nominating and governance committee. As of December 28, 2007, Mr. Shoemaker had 41,667 options outstanding, of which 903 were exercisable.



(9) As of December 28, 2007, Ms. Wang had 75,833 options outstanding, of which 66,250 were exercisable. The foregoing compensation table does not include fringe benefits that are, in the aggregate, less than \$10,000 or are generally made available on a non-discriminatory basis to all of our U.S.-based employees. The fringe benefits include medical, dental, and vision insurance, which we consider to be ordinary and incidental business expenses.

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## Nominating and Governance Committee Report

The nominating and governance committee operates under a written charter adopted by our board of directors, which was amended in fiscal 2007. The amended and restated charter is attached to this proxy statement and is available in the Corporate Governance section of our website at [www.altera.com](http://www.altera.com), or by calling our Investor Relations Department at (408) 544-7000, or by writing us at Altera Corporation, 101 Innovation Drive, San Jose, California 95134, Attn: Investor Relations.

### *Nomination of Directors*

The nominating and governance committee nominates candidates for election to the board based on an evaluation of the candidate's decision-making ability, business experience and expertise, technological background, personal integrity, reputation, ability and willingness to devote the necessary time to board service on an ongoing basis, and independence as defined by NASDAQ listing standards. In addition, the nominating and governance committee recognizes the benefits of a board of directors that reflects the diversity of our stockholders, employees, customers, and the community in which we operate. Accordingly, the nominating and governance committee actively seeks qualified candidates for nomination and election to the board of directors that reflect such diversity. The nominating and governance committee also reviews the activities and associations of potential candidates to ensure that there is no legal impediment, conflict of interest, or other consideration that might hinder or prevent a potential candidate from fulfilling the duties of a director. When the nominating and governance committee considers nominating current members of the board of directors for re-election, it reviews each member's contributions to us and the board, knowledge of the company and issues presented to the board, and preparation for and participation in meetings. This review is part of the board evaluation process discussed on page 8.

In August 2006, the nominating and governance committee retained Russell Reynolds Associates, Inc. ( Russell Reynolds ) to assist in identifying and evaluating potential director candidates, including Messrs. Shoemaker and Myers, who were elected to the board of directors in March and October 2007, respectively.

The nominating and governance committee will consider prospective nominees proposed by stockholders based on the same criteria it uses for all director candidates. Any stockholder who wants to recommend a prospective nominee should submit the following information to the nominating and governance committee, care of our Secretary, at the address of our principal executive offices, within the timeframe described below under the caption *Stockholder Proposals* :

Biographical information about the candidate and a statement about his/her qualifications;

Any other information required to be disclosed about the candidate under SEC proxy rules (including the candidate's written consent to being named in the proxy statement and to serve as a director, if nominated and elected);

The names and addresses of the stockholder(s) recommending the candidate for consideration and the number of shares of our common stock beneficially owned by each and the length of ownership; and

Any affiliation between the candidate and the stockholder(s) recommending the candidate.

Greater detail about the submission process for stockholder proposals is set forth in our bylaws, a copy of which may be obtained by making a written request to our Secretary at the address of our principal executive offices.

We have not received a qualifying director nominee recommendation from any stockholder (or group of stockholders).

Robert J. Finocchio, Jr., Chairman

John Shoemaker, Member

NOMINATING AND GOVERNANCE COMMITTEE



**Security Ownership of Certain Beneficial Owners and Management**

The following table sets forth the shares of our common stock beneficially owned by: (1) persons known by us to beneficially own greater than five percent of our outstanding stock; (2) each individual who currently serves as one of our directors; (3) our CEO, both individuals who served as our Chief Financial Officer ( CFO ) during fiscal 2007, and our three other most highly compensated executive officers; and (4) all of our directors and executive officers as a group as of the record date. Except as otherwise indicated in the accompanying footnotes, beneficial ownership is shown as of the record date.

Name and Address of Beneficial Owner(1)	Shares of Common Stock Number of Shares Beneficially Owned	Percent of Class(2)
<b>Greater Than Five-Percent Stockholders:</b>		
Capital Group International, Inc.(3)	26,768,900	8.87%
Capital Research Global Investors(4)	18,400,000	6.10%
FMR LLC(5)	24,704,567	8.19%
T. Rowe Price Associates, Inc.(6)	18,549,857	6.15%
Wellington Management Company, LLP(7)	25,970,634	8.61%
<b>Directors and Executive Officers:</b>		
John P. Daane(8)	3,629,546	1.20%
Robert W. Reed(9)	75,000	*
Robert J. Finocchio, Jr.(10)	103,333	*
Kevin McGarity(11)	70,000	*
Gregory E. Myers		*
John Shoemaker(12)	12,500	*
Susan Wang(13)	75,000	*
Misha Burich(14)	587,854	*
James W. Callas(15)	198,333	*
Timothy R. Morse(16)	133,100	*
George Papa(17)	754,160	*
Jordan S. Plofsky(18)	1,106,029	*
All directors and executive officers as a group (15 persons)(19)	8,279,629	2.74%

\* Less than 1%.

- (1) The persons named in the table above have sole voting and investment power with respect to all shares of common stock beneficially owned by them, subject to community property laws where applicable and to the information contained in the footnotes to this table. Unless otherwise indicated in a corresponding footnote, the business address of each beneficial owner is 101 Innovation Drive, San Jose, California 95134.
- (2) All percentages are calculated based on 301,782,518 shares of common stock outstanding as of the record date, together with applicable stock options and RSUs for each stockholder. Beneficial ownership is determined in accordance with SEC rules and includes voting and investment power with respect to shares. Shares of common stock subject to stock options currently exercisable or exercisable, as well as RSUs that vest, within sixty days after the record date, are deemed outstanding for purposes of computing the percentage ownership of the person holding such options and/or RSUs, but are not deemed outstanding for computing the percentage of any other person.
- (3) Based on a filing with the SEC on February 12, 2008, indicating beneficial ownership as of December 31, 2007. Capital Group International, Inc. ( CGII ) is the parent holding company of a group of investment management companies, including a bank and several investment advisors. The address for CGII is 11100 Santa Monica Boulevard., Los Angeles, California 90025.
- (4) Based on a filing with the SEC on February 12, 2008, indicating beneficial ownership as of December 31, 2007. Capital Research Global Investors ( CRGI ) beneficially owns these shares as a result of acting as

- an investment advisor to various investment companies. The address for CRGI is 333 South Hope Street, Los Angeles, California 90071.
- (5) Based on a filing with the SEC on February 14, 2008, indicating beneficial ownership as of December 31, 2007. FMR LLC ( FMR ) indirectly holds shares of our common stock on behalf of its direct and indirect subsidiaries. Fidelity Management & Research Company, a wholly-owned subsidiary of FMR and a registered investment advisor, is the beneficial owner of 24,107,195 shares of our common stock as a result of acting as investment advisor to various investment companies. Strategic Advisors, Inc., a wholly-owned subsidiary of FMR, is the beneficial owner of 352,450 shares of our common stock. Pyramis Global Advisors Trust Company ( Pyramis ), an indirect wholly-owned subsidiary of FMR, is the beneficial owner of 244,922 shares of our common stock. The address for each such reporting entity is 82 Devonshire Street, Boston, Massachusetts 02109, except the address for Pyramis is 53 State Street, Boston, Massachusetts 02109.
- (6) Based on a filing with the SEC on February 13, 2008, indicating beneficial ownership as of December 31, 2007. T. Rowe Price Associates, Inc. ( TRPA ) serves as an investment advisor with power to direct investments and/or sole power to vote securities owned by various individual and institutional investors. TRPA is deemed to be a beneficial owner of such securities for purposes of the reporting requirements of the Exchange Act; however, TRPA expressly disclaims that it is, in fact, the beneficial owner of such securities. The address for TRPA is 100 East Pratt Street, Baltimore, Maryland 21202.
- (7) Based on a filing with the SEC on February 14, 2008, indicating beneficial ownership as of December 31, 2007. Wellington Management Company, LLP ( Wellington ) beneficially owns these shares as a result of acting as a registered investment advisor. The address for Wellington is 75 State Street, Boston, Massachusetts 02109.
- (8) Includes 3,350,000 shares that Mr. Daane has a right to acquire within 60 days of the record date through exercise of options and/or vesting of RSUs.
- (9) Represents 75,000 shares that Mr. Reed has the right to acquire within 60 days of the record date through exercise of options.
- (10) Represents 93,333 shares that Mr. Finocchio has the right to acquire within 60 days of the record date through exercise of options.
- (11) Represents 70,000 shares that Mr. McGarity has the right to acquire within 60 days of the record date through exercise of options.
- (12) Represents 12,500 shares that Mr. Shoemaker has the right to acquire within 60 days of the record date through exercise of options.
- (13) Represents 75,000 shares that Ms. Wang has the right to acquire within 60 days of the record date through exercise of options.
- (14) Includes 575,000 shares that Mr. Burich has the right to acquire within 60 days of the record date through exercise of options and/or vesting of RSUs.
- (15) Represents 198,333 shares that Mr. Callas has the right to acquire within 60 days of the record date through exercise of options and/or vesting of RSUs.
- (16) Includes 125,000 shares that Mr. Morse has the right to acquire within 60 days of the record date through exercise of options and/or vesting of RSUs.
- (17) Includes 714,167 shares that Mr. Papa has the right to acquire within 60 days of the record date through exercise of options and/or vesting of RSUs.
- (18) Includes 1,074,167 shares that Mr. Plofsky has the right to acquire within 60 days of the record date through exercise of options and/or vesting of RSUs.
- (19) Includes shares in the aggregate that our executive officers and directors have the right to acquire within 60 days of the record date through exercise of stock options and/or vesting of RSUs.

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## EXECUTIVE COMPENSATION

### Compensation Discussion and Analysis

#### *Overview of Compensation Program*

The primary objectives of our executive compensation program are to:

attract, motivate, and retain highly qualified executives;

align management and stockholder interests by tying a large percentage of executives' compensation, in the form of cash and long-term equity incentives, to financial performance of the company (i.e., pay for performance);

motivate executives to attain both individual and group goals by tying annual cash incentives to achievement of those goals; and

compensate executives at levels competitive with peer companies.

In general, the types of compensation and benefits provided to our CEO, CFO, and our three other most highly compensated executive officers (collectively, our named executive officers, or NEOs) are equivalent to those provided to most other employees, and include salary, cash bonuses, RSUs, stock options, and other benefits. The amount and mix of compensation differs, however, depending on an employee's position and level of responsibility.

The compensation committee is responsible for implementing our executive compensation program. The committee does not have a pre-established policy or target for allocating between either cash and equity or short-term and long-term incentive compensation, nor do its decisions regarding one component of compensation necessarily influence decisions regarding other components. However, as an executive's level of responsibility increases, the percentage of total compensation represented by variable, incentive compensation increases; the CEO's percentage is the highest. Additionally, while the compensation committee considers internal equity in setting compensation, the company did not have formal internal equity guidelines applicable to fiscal 2007. The majority of executives' total compensation historically has been provided in the form of long-term equity incentives because the compensation committee believes that this is the most effective way to align executives' interests with those of our stockholders.

#### *Process*

On an annual basis, the compensation committee: (1) evaluates and establishes the CEO's compensation in consultation with the independent members of the board of directors; (2) leads the board of directors in a discussion of the CEO's performance; and (3) evaluates and establishes the compensation of other executive officers based on the recommendation of the CEO. The compensation committee makes compensation decisions for the other executive officers in the same way and using similar factors as with respect to the CEO.

Compensation decisions related to our annual performance review process are made based in part on an evaluation of the executive's contributions and performance, including achievement of individual and group goals that are established by each executive and reviewed with the board of directors prior to the start of the fiscal year. As part of this annual process, each executive meets with the board of directors to present his/her performance compared to previously established annual goals.

The compensation committee benchmarks each component of compensation as well as the total compensation paid to each executive against the compensation paid to executives in similar positions at the peer companies listed below. The CEO's recommendations regarding compensation for the other executive officers take into account these benchmarking results; the CEO's recommendations are generally approved by the compensation committee with minor adjustments.

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***Peer Group and Benchmarking***

The compensation committee seeks to maintain executives' total compensation at a level competitive with peer companies in the semiconductor industry or related industries that approximate our size in terms of employees, revenue, and capitalization.

The companies that comprise our compensation peer group are:

Atmel Corporation	Marvell Technology Group, Ltd.
Broadcom Corporation	Mentor Graphics Corporation
Cadence Design Systems, Inc.	Microchip Technology, Inc.
Cypress Semiconductor Corporation	National Semiconductor Corporation
Fairchild Semiconductor International, Inc.	Nvidia Corporation
International Rectifier Corporation	On Semiconductor Corporation
Intersil Corporation	RF Microdevices, Inc.
Linear Technology Corporation	Synopsys, Inc.
LSI Corporation	Xilinx, Inc.

In determining whether the compensation paid to our executives is competitive with our peers, the compensation committee utilizes information obtained from surveys such as the Radford Executive Compensation Survey, proxy statements, and information gathered directly from some of the peer companies. The compensation committee generally targets total cash compensation to fall between the 50<sup>th</sup> and 75<sup>th</sup> percentile of our peer group, although deviations from this may occur as described further in the Summary of Officer Compensation section on page 22.

***Compensation Consultant***

In fiscal 2007, the compensation committee directly engaged Radford Surveys and Consulting ( Radford ) as its outside compensation consultant to provide detailed peer group analysis for executive officer and board of director compensation. Radford provided insight into a wide range of external market factors, including: (1) current compensation trends; (2) market survey data and peer group practices; and (3) general observations on our executive compensation program, including program design alternatives. No member of the compensation committee has any affiliation with Radford.

***Components of Compensation***

***Base Salary***

Salaries are intended to provide predictable, competitive compensation that aligns with our policy of attracting, motivating, and retaining highly qualified executives. Base salaries for our executives are established by considering the scope of their responsibilities, performance and accomplishments, as well as compensation benchmarking data. The compensation committee may also take into account an individual's experience level, market factors and internal equity considerations. Base salaries are reviewed on an annual basis as part of our performance and compensation review process, and are increased as necessary to realign salaries with levels competitive to our peers.

***Cash Incentive Compensation***

The compensation committee has the authority to annually award cash incentives to our executive officers. The cash incentive plan is designed to significantly affect total compensation depending on our success in meeting annual financial and strategic goals, thereby tying individual compensation to company performance as

well as individual performance. The compensation committee determines the CEO's payout after consulting with the independent members of the board of directors and determines the amounts with respect to our other executive officers based on our CEO's recommendations.

The board of directors has discretion to award cash bonuses to our NEOs beyond those awarded pursuant to our cash incentive plan. The board of directors, for instance, awarded such a bonus to Mr. Plofsky in recognition of the fact that he served as our Acting Vice President of Human Resources throughout fiscal 2007, in addition to his position as Senior Vice President, Marketing. Furthermore, the compensation committee authorized a hire-on bonus for Timothy R. Morse, in connection with his employment as our Senior Vice President and CFO in January 2007, as described further in the Summary of Officer Compensation section on page 22.

*Overview of Plan Applicable to Fiscal 2007*

In fiscal 2007, employees in director-level and above positions, including our executive officers, were eligible for a cash incentive under a three-year plan. The plan was adopted in 2004 and was in effect for each of fiscal years 2005, 2006, and 2007 (the Bonus Plan). Under the Bonus Plan, actual payouts are based on a formula that takes into account: (1)(a) revenue growth from one year to the next (Revenue Growth Factor), (1)(b) net income (less stock-based compensation expense) as a percentage of revenue above ten percent (Net Income Factor); and (2) performance against individual goals (Individual Performance Goals). The Revenue Growth Factor and Net Income Factor are collectively referred to as the Financial Factors.

Different multipliers apply to each of the Financial Factors and vary among NEOs, as follows:

Name and Principal Position	Multipliers Applied to	
	Revenue Growth Factor	Net Income Factor
John P. Daane President and Chief Executive Officer	2.75	3.00
Timothy R. Morse(1) Senior Vice President and Chief Financial Officer	1.75	1.75
James W. Callas(1) Vice President Finance and Controller and Former Acting Chief Financial Officer	1.25	0.83
Misha Burich Senior Vice President, Research and Development	1.75	1.75
Jordan S. Plofsky Senior Vice President, Marketing	1.75	1.75
George Papa Senior Vice President, World-Wide Sales	1.75	1.75

- (1) On January 15, 2007, Mr. Morse was appointed to serve as Senior Vice President and CFO and Mr. Callas, our then-acting CFO, resumed his role of Vice President Finance and Controller.



While the Financial Factors remained unchanged for each of the three years covered by the Bonus Plan, Individual Performance Goals in some cases changed from year to year. Individual Performance Goals are generally established prior to the start of the fiscal year. However, in some cases, non-financial goals may be added or eliminated after the start of the fiscal year due to changes in responsibilities or changes in corporate goals or priorities. Individual Performance Goals are not modified after the start of the fiscal year to compensate for unexpected changes in the company's financial performance. The Individual Performance Goals for fiscal 2007 fell within the following categories:

- (1) *Market share and revenue goals.* The goals in this category identify matters such as specific customers, categories of customers, and end market sub-segments we are targeting in order to increase revenue and market share vis-à-vis our competitors.
- (2) *Sales and marketing plans, strategies and campaigns.* Many of the goals within this category relate to our plans and strategies for increasing design wins that will result in future revenues.
- (3) *Planned improvements in business processes, compliance and profitability.* The goals represented by this category include initiatives related to pricing strategies, selling activity and methodology, as well as our capital structure and financial compliance/controllership.
- (4) *Product development plans and schedules.* The goals within this category relate to the timing and contingencies for the development and release of future products.
- (5) *Personnel and organizational matters.* The goals within this category relate to the individuals and departments that comprise our internal organization, including but not limited to succession planning, retention, and employee-development plans.

We are not disclosing the goals within the above categories because we believe such disclosure would cause us competitive harm. Nor are we disclosing the weightings that applied to the goals; such information is confidential and would cause future competitive harm since the weightings indicate the priority we place on certain activities or programs. Moreover, such information is potentially misleading because an individual may have more than one goal within the above categories; as a result, the weighting applied to a particular category of goals would in fact be an accumulation of the weightings applied to Individual Performance Goals. The degree of difficulty for a NEO to achieve his/her target bonus can be seen by looking at the historical achievement of both Financial Factors as well as achievement of Individual Performance Goals, as shown in the following table.

Our NEOs have had difficulty achieving their target cash incentives under the three-year Bonus Plan because the Financial Factors and the Individual Performance Goals are very challenging, as show in the table below. The achievement of the Financial Factors was only 48% of the target amount in 2007 because of the company's failure to grow revenue from fiscal 2006 to 2007. In fiscal 2005 and 2006, the percentage achievement of the Financial Factors was 78% and 96% of the target amounts, respectively. With respect to the Individual Performance Goals, our NEOs do not always achieve 100% of these goals and rarely exceed 100%, although the compensation committee can determine that a NEO achieved up to 125% of such goals. The table below only shows information if an individual was a NEO during the applicable fiscal year.

Name	Year	Target Payouts	Achievement of	Performance Against	Actual Payouts
		Under Non-Equity Incentive Plan	Financial Factors	Individual Goals	Under Non-Equity Incentive Plan
(a)	(b)	Awards (% of Base Salary) (c)	(% of Target) (d)	(% Achievement) (e)	Awards (% of Base Salary) (f)
John P. Daane	2007	100	48	96	46
	2006	100	96	80	76
	2005	100	78	100	78
Timothy R. Morse	2007	60	48	90	24
	2006	N/A	N/A	N/A	N/A
	2005	N/A	N/A	N/A	N/A
James W. Callas	2007	50	48	70	18
	2006	50	96	88	40
	2005	N/A	N/A	N/A	N/A
Misha Burich	2007	60	48	95	27
	2006	N/A	N/A	N/A	N/A
	2005	N/A	N/A	N/A	N/A
Jordan S. Plofsky	2007	60	48	85	44
	2006	60	96	76	43
	2005	60	78	110	78
George Papa	2007	60	48	80	23
	2006	60	96	72	40
	2005	60	78	105	78

The actual payout under the Bonus Plan is determined by multiplying: (1) the sum of the amounts calculated by applying the above multipliers to the Financial Factors times (2) the percentage completion of the executive's Individual Performance Goals.

No component of the Bonus Plan formula is left to the complete discretion of the compensation committee. However, because some of the Individual Performance Goals cannot be objectively measured, the evaluation of whether a particular goal has been met may be subjective in nature. Nonetheless, the compensation committee's ability to modify the amounts payable under the Bonus Plan as a result of the subjectivity inherent in measuring Individual Performance Goals is limited. First, the percentage achievement of the Individual Performance Goals is applied as a multiplier (0-125%) to the amount calculated based on the company's performance against the Financial Factors. Therefore, the failure to achieve 100% of the Individual Performance Goals serves to reduce the bonus payment from the amount calculated pursuant to the Financial Factors. Second, if the company's financial performance results in a zero payout, no bonuses are paid to the CEO or any NEO who is a Senior Vice President. A NEO who is a Vice President, such as Mr. Callas who served as our acting CFO for the first two weeks of 2007, is eligible for a bonus of up to 15.63% of his/her base salary, solely on the basis of individual performance. Third, the amounts payable under the Bonus Plan are capped at two times the target amount. The caps for our CEO and other executives who are Senior Vice Presidents are 200% and 120% of base salaries,

respectively; for Vice Presidents, the cap is 100% of base salary. In determining whether an executive's Individual Performance Goals have been achieved, the compensation committee does not consider whether the executive's total cash compensation will be between the 50<sup>th</sup> and 75<sup>th</sup> percentile of our peer group.

By way of example, the amount received by our CEO under the Bonus Plan for fiscal 2007 was calculated as follows:

Annual Revenue Growth	0.0%	a
Revenue Growth Multiplier	2.75	b
Revenue Growth Factor	0.0	a*b
Revenue Growth Factor Applied to Base Salary	\$0	X
Net Income as a Percentage of Revenue(1)	26.1% >10% = 16.1%	c
Net Income Multiplier	3.00	d
Net Income Factor	0.483	c*d
Net Income Factor Applied to Base Salary	\$338,100	Y
Total Financial Factors	\$338,100	X+Y
Performance Against Individual Goals	96%	
Total Bonus Plan Payout (rounded down to nearest thousand)	\$324,000(2)	

(1) Net income (less stock-based compensation expense) as a percentage of revenue above 10%.

(2) Amount is reflected in column (g) of the Summary Compensation Table on page 24.

*Overview of Plan Applicable to Fiscal 2008*

In January 2008, the compensation committee adopted a bonus plan applicable to fiscal 2008 (the 2008 Bonus Plan). The purpose of the 2008 Bonus Plan is the same as the Bonus Plan applicable to fiscal 2007, namely, to promote the interests of the company and stockholders by providing financial rewards upon achievement of specified business objectives, as well as helping us attract and retain key employees by providing compensation opportunities linked to performance results.

Director-level and above employees, including our executive officers, are eligible to participate in the 2008 Bonus Plan. Actual payouts to the NEOs will be determined by the compensation committee based on a formula that takes into account: (1) operating income as a percentage of revenue for fiscal 2008, in accordance with the table shown below (the Financial Performance Metric); and (2) individual performance goals (the Individual Performance Metric). Operating income is defined as earnings before income, interest expense, and taxes. The compensation committee has discretion to exclude significant, non-recurring items, as well as amounts attributable to our non-qualified deferred compensation plan, from the calculation of the Financial Performance Metric. The specific goals underlying the Individual Performance Metric fall into the same categories as those applicable to the fiscal 2007 Bonus Plan. For the reasons described in further detail above, we are not disclosing the specific goals or the applicable weightings because they are confidential and their disclosure would cause competitive harm.

The Financial Performance Metric is very challenging, as indicated by the fact that in the past two fiscal years, our operating income as a percentage of revenue (including equity expense) was 23.4% in 2006 and 21.8% in 2007.

The Financial Performance Metric determines the potential payout percentage that may be earned, and the Individual Performance Metric is then applied as a multiplier to determine the actual payout. The actual payouts are calculated pursuant to the following formula (which is subject to the target and maximum payout percentages specified below):

Base Salary \* (Target % \* Potential Payout % (as specified below) \* Individual Performance Metric %) = Actual Payout.

The target percentage varies depending on the executive's position and level of responsibility within the company. The maximum payout percentage caps the payouts at a certain percentage of the executive's base salary, with the percentages also varying depending on the individual's position. The target and maximum payouts applicable to our NEOs are: (1) 100% and 200%, respectively, in the case of our CEO; (2) 60% and 120%, respectively, in the case of other NEOs who are Senior Vice Presidents; and (3) 50% and 100% for NEOs who are Vice Presidents. The Potential Payout Percentage is calculated based on the following table (if the results of the Financial Performance Metric fall between the amounts indicated, the Potential Payout Percentage is calculated on a proportional basis):

Operating Income as a Percentage of Revenue	Potential Payout Percentage
Less than 22	0
22	20
23	30
24	50
25	70
26	90
27	100
28	130
29	160
30	190
31 or higher	200

The Individual Performance Metric is determined by the compensation committee as follows: (1) 70% is based on the individual's performance against specific goals that have been approved by the compensation committee; and (2) 30% is based on the compensation committee's subjective assessment of each executive's overall performance. The Individual Performance Metric may range from 0-125%.

#### *Equity Incentive Compensation*

The compensation committee believes that performance-based RSUs can effectively align executives' interests with those of our stockholders because they are subject to both time-based and performance-based vesting requirements. Consequently, performance-based RSUs were granted to each of our NEOs in 2007 (except for Messrs. Morse, Callas and Burich, as described in further detail in the "Grants of Plan-Based Awards During Fiscal 2007" section on page 25). The performance-based vesting requirement is intended to motivate executives to make decisions that enhance our profitability since vesting of 100% of the RSUs is contingent on the company achieving net income as a percent of revenue above a certain percentage - 18% in fiscal 2007. In March 2008, the compensation committee certified that the Financial Performance Metric was met. The four-year vesting period is designed to encourage long-term retention.

The compensation committee bases equity awards to the CEO and executive officers on the following factors: (1) the individual's ability to influence our long-term growth and profitability; (2) an estimate of the equity incentive value of unvested equity awards; and (3) the competitiveness of equity grants vis-à-vis those made to similar executives at peer companies. Factors (2) and (3) principally drive the size of the equity grants. For fiscal 2007, the compensation committee did not target a particular equity incentive value or target a particular percentile in determining competitiveness. Rather, they considered the number of shares covered by an equity award (as opposed to the Black-Scholes value of such award in the case of options) that was granted to NEOs at peer companies during the preceding year. For fiscal 2008, the compensation committee considered the dollar value of RSUs (or Black-Scholes value in the case of options) made to NEOs at peer companies during the preceding year.

#### *Other Benefits*

Executive officers are eligible to receive benefits at the same level generally available to our U.S.-based employees. These benefits include: employee stock purchase plan, non-qualified deferred compensation plan, medical benefits, life and accident insurance, and an annual 401(k) plan matching contribution of \$2,000. The 401(k) plan matching contribution was raised to \$3,000 for fiscal 2008. We do not provide any other perquisites to our executive officers that are not made available to other employees.

In connection with our employment of Timothy R. Morse as our Senior Vice President and CFO in January 2007, we provided a relocation package of up to \$200,000, which included a reimbursement of income tax on payments made to Mr. Morse for relocation expenses. The compensation committee believed this was reasonable in light of Mr. Morse's relocation from Massachusetts to California.

#### *Stock Ownership Guidelines*

In February 2008, the board of directors adopted stock ownership guidelines that provide that the CEO and CFO should own, within five years of the institution of the guideline, 100,000 and 15,000 shares, respectively, of common stock in the company. An individual may request that the compensation committee suspend the ownership guidelines based on personal hardship. The board put the guidelines in place to strengthen the interests of management with those of our stockholders, with the belief that the CEO and CFO positions have the greatest ability to influence our long-term growth and profitability. As of the record date, our CEO owned 279,546 shares (not including shares that he has the right to acquire within 60 days of the record date), thereby meeting the guideline. Our CFO only joined us in January 2007, and is working to meet the guidelines; as of the record date, he owned 8,100 shares (not including shares that he has the right to acquire within 60 days of the record date).

#### *Other Compensation Considerations*

##### *Deductibility of Executive Compensation*

Under Section 162(m) of the Internal Revenue Code of 1986, as amended (the Code), we may not receive a federal income tax deduction for compensation paid to our CEO, CFO and the next three most highly compensated executive officers to the extent that any of these persons receive more than \$1,000,000 in compensation in any one year. However, if we pay compensation that is performance-based under Section 162(m), we can receive a federal income tax deduction even if such compensation exceeds \$1,000,000 in a single year, subject to certain conditions. The compensation committee generally seeks to structure compensation amounts and equity plans that meet the deductibility requirements under Section 162(m). However, to maintain flexibility in compensating executive officers in a manner designed to promote varying corporate goals, the compensation committee has not adopted a policy that all compensation must be deductible on our federal income tax returns. In addition, the committee cannot ensure that compensation intended to qualify for deductibility under Section 162(m) will in fact be deductible because: (1) a number of requirements must be satisfied in order for the compensation to qualify; and (2) uncertainties as to the application and interpretation surrounding this section currently exist.

##### *Accounting for Stock-Based Compensation*

On December 31, 2005, we began accounting for stock-based awards made to all employees and non-employee directors, including stock options, RSUs, and stock purchase rights granted pursuant to our equity compensation and stock purchase plans, in accordance with the requirements of FAS 123R.

#### *Summary of Officer Compensation*

On January 15, 2007, Timothy R. Morse was appointed to serve as our Senior Vice President and CFO. Mr. Morse received an employment package consisting of the following key components of compensation: (1) annual base salary of \$375,000; (2) cash incentive compensation pursuant to our Bonus Plan; (3) hire-on

bonus of \$250,000; (4) grant of 400,000 stock options; (5) grant of 50,000 RSUs; and (6) relocation package of up to \$200,000 based on our standard relocation guidelines. The total compensation package was determined by a committee appointed by the board of directors and based on the following considerations: (1) Mr. Morse's compensation with his former employer; (2) the compensation paid to CFOs at our peer companies; (3) the compensation paid to our CEO and our previous CFO; (4) the entire compensation package that would be payable to Mr. Morse if he accepted our employment offer; and (5) information provided by Russell Reynolds, the executive search firm retained to assist in the search for a new CFO, regarding compensation packages recently offered to other similarly situated candidates for CFO positions at companies comparable to us.

Base salaries for our NEOs, as reflected in column (c) of the Summary Compensation Table below, did not increase from 2006 to 2007 because the compensation committee concluded that the amounts were competitive with our peer group. However, Mr. Callas' base salary was increased by \$10,000 once he resumed his position as Vice President Finance and Controller, to realign his salary with similar positions at our peers. Our CEO's base salary has not changed since fiscal 2003 and the base salaries of our Senior Vice Presidents of Marketing and World-Wide Sales have not changed since they joined us in fiscal 2001. Except in the case of Mr. Morse, total cash compensation paid to our NEOs in 2007 was below the target range of the 50<sup>th</sup> and 75<sup>th</sup> percentiles of our peers, mainly due to lower payouts under the Bonus Plan as a result of the company's failure to achieve its revenue growth target. Mr. Morse's total cash compensation fell within the target range, primarily due to his \$250,000 hire-on bonus.

The amounts shown in column (d) in the below table reflect discretionary bonuses. With respect to Mr. Morse, the bonus was made in conjunction with his hiring in January 2007; additional information is provided in footnotes (5) and (6) to the Summary Compensation Table. Mr. Plofsky's bonus is described in further detail in footnote (8).

The amounts shown in columns (e) and (f) are for RSUs and stock options. All equity grants are described in further detail in the Grants of Plan-Based Awards During Fiscal 2007 table on page 26.

Amounts listed in column (g) represent cash incentive awards pursuant to our Bonus Plan (described in further detail in the Grants of Plan-Based Awards During Fiscal 2007 table on page 26) that our NEOs received for fiscal 2007 performance.

The following table summarizes the total compensation paid to each of our NEOs, comprised of all individuals who served as our CEO or CFO at any time during fiscal 2007, and our three other most highly compensated executive officers who were serving as executive officers at the end of fiscal 2007.

## SUMMARY COMPENSATION TABLE

Name and Principal Position (a)	Year (b)	Salary (\$) (c)	Bonus (\$) (d)	Stock Awards (\$)(1) (e)	Option Awards (\$)(1) (f)	Non-Equity Incentive Plan Compensation	All Other Compensation	Total Compensation
						(\$) (g)	(\$) (h)	(\$) (i)
John P. Daane President and Chief	2007	700,027		367,139	1,493,805	324,000		2,884,971
	2006	700,027	75,000		2,563,818	535,000	13,462	3,887,307
Executive Officer								
Timothy R. Morse(2)(3)	2007	360,831(4)	301,236(5)	228,340	738,654	90,000(4)	16,626(6)	1,735,687
Senior Vice President and Chief Financial Officer								
James W. Callas(2) Vice President Finance and Controller and Former Acting Chief Financial Officer	2007	240,009		65,570	113,152	43,450	9,231(7)	471,412
	2006	230,009	75,000	26,398	235,829	93,000		660,236
Misha Burich(3)	2007	375,014		257,236	266,102	100,000		998,353
Senior Vice President, Research and Development								
Jordan S. Plofsky Senior Vice President, Marketing	2007	350,013	70,000(8)	339,096	357,510	85,000		1,201,619
	2006	350,013	25,000	175,868	800,940	149,000		1,500,821
George Papa Senior Vice President, World-Wide Sales	2007	350,013		339,096	357,510	80,000		1,126,619
	2006	350,013	20,000	175,868	842,638	141,000		1,529,519

(1) Stock awards consist only of RSUs. Amounts shown in columns (e) and (f) do not reflect compensation actually received by the NEO. Instead, the amounts represent the compensation cost we recognized in fiscal 2007, including amounts related to grants made in prior years, in accordance with FAS 123R, disregarding adjustments for forfeiture assumptions. For a discussion of valuation assumptions, see Note 8 to our 2007 Consolidated Financial Statements included in our Annual Report.

(2) On January 15, 2007, Mr. Morse was appointed to serve as Senior Vice President and CFO and Mr. Callas, our then-acting CFO, resumed his role as Vice President Finance and Controller.

(3) Mr. Morse and Mr. Burich became NEOs in fiscal 2007, and, consequently, no fiscal 2006 compensation amounts are provided.

(4)

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Mr. Morse's annual base salary is \$375,000. The amount shown in column (c) is less than his annual salary because he became Senior Vice President and CFO in mid-January 2007. The amount shown in column (g) was calculated pursuant to the Bonus Plan using his annual base salary.

- (5) Represents a hire-on bonus of \$250,000 and a \$51,236 relocation bonus.
- (6) Represents tax gross-up on payments made to Mr. Morse for relocation-related expenses.
- (7) Amount reflects vacation cash-out benefit. In 2007, all employees were entitled to cash-out unused vacation hours in excess of a specified amount.
- (8) The compensation committee awarded Mr. Plofsky a discretionary bonus of \$70,000 in recognition of the additional responsibilities he assumed as Acting Vice President of Human Resources throughout fiscal 2007. Although these added demands and responsibilities were foreseen at the time that Mr. Plofsky's Individual Performance Goals (pursuant to the Bonus Plan applicable for fiscal 2007) were established, the compensation committee did not establish specific goals related to that function and, therefore, believed that it was appropriate to award this bonus to reflect the extraordinary effort put forth by Mr. Plofsky. The amount was calculated based on the Bonus Plan for fiscal 2007 formula, using compensation benchmarking data to determine the applicable base salary and assuming that Mr. Plofsky achieved 100% of the individual goals related to this function. The discretionary bonus amount was not considered in decisions regarding other elements of his compensation.



*Grants of Plan-Based Awards During Fiscal 2007*

The following explanation and table sets forth information with respect to our Bonus Plan as well as stock option grants and RSU awards made during 2007 to our NEOs.

*Cash Incentive Compensation*

The Financial Factors, which are the primary drivers of payouts to our NEOs under the Bonus Plan applicable to fiscal 2007, are very challenging. The company did not grow revenue from fiscal 2006 to fiscal 2007 and, consequently, the amounts payable under the Bonus Plan decreased significantly from fiscal 2006. This result is consistent with the board of director's policy of tying variable, incentive compensation to the company's financial performance. Furthermore, no NEO achieved 100% of his Individual Performance Goals in fiscal 2007, thereby indicating the relative difficulty of those goals. In the case of Mr. Daane, the compensation committee determined that he achieved 96% of his individual goals; with respect to our other NEOs, the percentages were as follows: 90% for Mr. Morse; 70% for Mr. Callas; 95% for Mr. Burich; 85% for Mr. Plofsky; and 80% for Mr. Papa. To the extent these amounts were not deferred by the NEO into our Deferred Compensation Plan, the amounts were paid out in 2008.

*Equity Incentive Compensation*

The compensation committee granted 400,000 stock options to Mr. Morse, who became our Senior Vice President and Chief Financial Officer on January 15, 2007. The award was intended to compensate him for stock options that he forfeited upon termination of his prior employment.

In fiscal 2007, the compensation committee awarded performance-based RSUs to each NEO (except for Messrs. Morse, Callas and Burich, as described below) in recognition of the value of their significant contributions to the company. The number of shares covered by the grant was based on their performance as well as benchmarking data.

Mr. Morse received a stock option and RSU award in connection with his hiring in January 2007. The RSUs were not subject to the performance metric because the grant was made in connection with his initial election as a new executive officer. Further detail regarding Mr. Morse's employment is described in the Summary of Officer Compensation section on page 22. Mr. Callas received an RSU award from the compensation committee, but it was not subject to the performance metric because he was no longer serving as Acting CFO on the date the grant was approved. The stock option committee awarded RSUs to Mr. Burich that were not subject to the performance metric because he was not an executive officer when the grant was made. The difference in the value of the equity grants made to the CEO and NEOs is based on competitive benchmarking data for their respective positions. The factors that the compensation committee considers in determining the size of the equity grants are described in further detail in the Equity Incentive Compensation section on page 21.

## GRANTS OF PLAN-BASED AWARDS

Name	Grant Date	Approval Date(1)	Estimated Possible Payouts Under Non-Equity Incentive Plan Awards(2)			All Other Stock Awards: Number of Shares of Stock or Units	All Other Option Awards: Number of Securities Underlying Options	Exercise or Base Price of Option Awards (\$/Sh)	Grant Date Fair Value of Stock and Option Awards
			Threshold (\$)	Target (\$)	Maximum (\$)				
(a)	(b)	(c)	(d)	(e)	(f)	(g)(3)	(h)(4)	(i)(5)	(j)(6)
John P. Daane	04/30/07 N/A	01/15/07 N/A		700,000	1,400,000	100,000			2,254,000 N/A
Timothy R. Morse	01/29/07 01/29/07 N/A	12/26/06 12/26/06 N/A		225,000(7)	450,000(7)	50,000	400,000	20.05	3,240,760 1,002,500 N/A
James W. Callas	04/30/07 N/A	01/15/07 N/A		120,000	240,000	10,000			225,400 N/A
Misha Burich	01/29/07 N/A	01/19/07 N/A		225,000	450,000	30,000			601,500 N/A
Jordan S. Plofsky	04/30/07 N/A	01/15/07 N/A		210,000	420,000	40,000			901,600 N/A
George Papa	04/30/07 N/A	01/15/07 N/A		210,000	420,000	40,000			901,600 N/A

- (1) We grant RSUs and options to employees only four times per year. The meeting of the compensation committee or stock option committee at which a particular grant is approved is always held in advance of these four grant dates. In 2007, the compensation committee approved all equity-based awards to NEOs (except as described below) at its January 15, 2007 meeting. At this meeting, the compensation committee decided that the grant date for RSUs for the effected executive officers would be April 30, 2007 so that the first vesting date of the performance-based RSUs could occur in the second month of the second quarter of 2008, to ensure that the company's financial results were known (for purposes of determining whether the performance metric was met). In the case of Mr. Morse, who joined the company on January 15, 2007, the compensation committee approved his compensation package on December 26, 2007 (further detail regarding Mr. Morse's employment can be found in the Summary of Officer Compensation section on page 22). The stock option committee approved Mr. Burich's RSU grant on January 19, 2007, along with those of other employees who were not executive officers and who were participating in our annual performance and compensation review process. The January 29, 2007 grant date for Mr. Morse and Mr. Burich coincided with the grant date of equity grants to all other employees participating in the review process. The RSUs granted on January 29, 2007 were valued at \$20.05 per share and those granted on April 30, 2007 were valued at \$22.54 (the closing price of our common stock as reported on NASDAQ on that date). The stock option grant made on January 29, 2007 to Mr. Morse has an exercise price of \$20.05, the closing price of our common stock on that day.
- (2) The amounts shown in columns (d)-(f) reflect the minimum, target and maximum payment amounts that NEOs may receive under the Bonus Plan, depending on performance against the metrics described in further detail in the Cash Incentive Compensation section on page 16. The amounts range from zero to a cap based on a certain percentage of the individual's base salary. The applicable caps are as follows: 200% for Mr. Daane; 120% for Mr. Morse, Mr. Burich, Mr. Plofsky and Mr. Papa; and 100% for Mr. Callas.
- (3) Represents the number of RSUs awarded to each NEO pursuant to our 2005 Plan, as described in further detail in the Equity Incentive Compensation section on page 21.
- (4) Represents the number of non-statutory stock options granted under our 2005 Plan, as described in further detail in the Equity Incentive Compensation section on page 21.
- (5) The exercise price for the stock option grant shown here is the fair market value (i.e., the closing price) of our common stock on the date of grant, as reported on NASDAQ.
- (6) Represents the full grant date fair value of each stock option grant and/or RSU award, as applicable, computed in accordance with FAS 123R.
- (7) These amounts are based on Mr. Morse's annual base salary of \$375,000.

**Option Exercises and Stock Vested In Fiscal 2007**

The following table provides information regarding stock option exercises and RSUs that vested in fiscal 2007.

**OPTION EXERCISES AND STOCK VESTED**

Name	Option Awards(1)		Stock Awards	
	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise (\$)	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting (\$)
(a)	(b)	(c)	(d)	(e)
John P. Daane	100,000	1,049,100		
Timothy R. Morse				
James W. Callas	125,000	878,910	1,500	29,865
Misha Burich	30,000	337,443	6,250	124,438
Jordan S. Plofsky	60,000	633,090	10,000	199,100
George Papa	200,000	1,925,500	10,000	199,100

- (1) Reflects exercise of stock options received pursuant to our 1996 Stock Option Plan (which was replaced by the 2005 Plan in May 2005). The value realized on exercise represents the difference between the exercise price and the fair market value of our common stock on the date of exercise.

**Outstanding Equity Awards**

The following table provides information regarding outstanding equity awards, including stock options and RSUs, and applicable market values at the end of fiscal 2007.

**OUTSTANDING EQUITY AWARDS AT FISCAL 2007 YEAR-END**

Name	Grant Date	Option Awards				Stock Awards			Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested	
		Number of Securities Underlying Unexercised Options (#)	Number of Securities Underlying Unexercised Options (#)	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Options (#)	Option Exercise Price (\$)	Option Expiration Date	Market Value of Shares or Units of Stock That Have Not Vested	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested		
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)
John P. Daane	11/30/2000	1,500,000			23.94	11/30/2010				
	12/03/2001	500,000			22.49	12/03/2011				
	12/03/2002	400,000			13.91	12/03/2012				
	01/05/2004	489,583	10,417		23.47	01/05/2014				
	03/02/2005	218,750	81,250		21.06	03/02/2015				
	01/10/2006	143,750	156,250		19.55	01/10/2016				
	04/30/2007						100,000	1,931,000		
Timothy R. Morse	01/29/2007		400,000		20.05	01/29/2017				
	01/29/2007						50,000	965,500		
James W. Callas	12/14/1999	10,000			22.72	12/14/2009				
	12/20/2000	40,000			24.63	12/20/2010				
	12/03/2001	55,000			22.49	12/03/2011				
	01/05/2004	44,063	937		23.47	01/05/2014				
	01/03/2005	40,104	14,896		20.04	01/03/2015				
	01/30/2006						4,500	86,895		
	04/30/2007						10,000	193,100		
Misha Burich	12/03/2001	75,000			22.49	12/03/2011				
	12/03/2002	120,000			13.91	12/03/2012				
	01/05/2004	160,000			23.47	01/05/2011				
	01/05/2004	117,500	2,500		23.47	01/05/2014				
	01/03/2005	87,500	32,500		20.04	01/03/2015				
	01/30/2006						18,750	362,063		
	01/29/2007						30,000	579,300		
Jordan S. Plofsky	05/01/2001	400,000			26.65	05/01/2011				
	12/03/2001	220,000			22.49	12/03/2011				
	12/03/2002	140,000			13.91	12/03/2012				
	01/05/2004	195,833	4,167		23.47	01/05/2014				
	03/02/2005	91,146	33,854		21.06	03/02/2015				
	01/30/2006						30,000	579,300		
	04/30/2007						40,000	772,400		
George Papa	02/19/2002	400,000			22.10	02/19/2012				
	01/05/2004	195,833	4,167		23.47	01/05/2014				

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03/02/2005	91,146	33,854	21.06	03/02/2015		
01/30/2006					30,000	579,300
04/30/2007					40,000	772,400

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(1) Stock options are exercisable in accordance with the vesting schedule below:

Name	Grant Date	Vesting
John P. Daane	01/05/2004	125,000 options vested on 01/05/2005. The remaining 375,000 options vest 1/36 per month thereafter (i.e. approximately 10,417 per month).
	03/02/2005	75,000 options vested on 03/02/2006. The remaining 225,000 options vest 1/36 per month thereafter (i.e. 6,250 per month).
	01/10/2006	75,000 options vested on 01/10/2007. The remaining 225,000 options vest 1/36 per month thereafter (i.e. 6,250 per month).
Timothy R. Morse	01/29/2007	100,000 options vested on 01/29/2008. The remaining 300,000 options vest 1/36 per month thereafter (i.e. approximately 8,333 per month).
James W. Callas	01/05/2004	11,250 options vested on 01/05/2005. The remaining 33,750 options vest 1/36 per month thereafter (i.e. approximately 938 per month).
	01/03/2005	13,750 options vested on 01/03/2006. The remaining 41,250 options vest 1/36 per month thereafter (i.e. approximately 1,146 per month).
Misha Burich	01/05/2004	30,000 options vested on 01/05/2005. The remaining 90,000 options vest 1/36 per month thereafter (i.e. 2,500 per month).
	01/03/2005	30,000 options vested on 01/03/2006. The remaining 90,000 options vest 1/36 per month thereafter (i.e. 2,500 per month).
Jordan S. Plofsky	01/05/2004	50,000 options vested on 01/05/2005. The remaining 150,000 options vest 1/36 per month thereafter (i.e. approximately 4,167 per month).
	03/02/2005	31,250 options vested on 03/02/2006. The remaining 93,750 options vest 1/36 per month thereafter (i.e. approximately 2,604 per month).
George Papa	01/05/2004	50,000 options vested on 01/05/2005. The remaining 150,000 options vest 1/36 per month thereafter (i.e. approximately 4,167 per month).
	03/02/2005	31,250 options vested on 03/02/2006. The remaining 93,750 options vest 1/36 per month thereafter (i.e. approximately 2,604 per month).

(2) RSUs vest as follows:

Name	Grant Date	Vesting
John P. Daane	04/30/2007(A)	25,000 RSUs each will vest on 04/30/2008, 04/30/2009, 04/30/2010, and 04/30/2011.
Timothy R. Morse	01/29/2007	12,500 RSUs vested on 01/30/2008, and 12,500 RSUs each will vest on 01/30/2009, 01/29/2010, and 01/30/2011.
James W. Callas	01/30/2006	1,500 RSUs each vested on 01/30/2007 and 01/30/2008, and 1,500 RSUs each will vest on 01/30/2009 and 01/29/2010.
	04/30/2007	2,500 RSUs each will vest on 04/30/2008, 04/30/2009, 04/30/2010, and 04/30/2011.
Misha Burich	01/30/2006	6,250 RSUs each vested on 01/30/2007 and 01/30/2008, and 6,250 RSUs each will vest on 01/30/2009 and 01/29/2010.
	01/29/2007	7,500 RSUs vested on 01/30/2008, and 7,500 RSUs each will vest on 01/30/2009, 01/29/2010, and 01/30/2011.
Jordan S. Plofsky	01/30/2006	10,000 RSUs each vested on 01/30/2007 and 01/30/2008, and 10,000 RSUs each will vest on 01/30/2009 and 01/30/2010.
	04/30/2007(A)	10,000 RSUs each will vest on 04/30/2008, 04/30/2009, 04/30/2010, and 04/30/2011.
George Papa	01/30/2006	10,000 RSUs each vested on 01/30/2007 and 01/30/2008, and 10,000 RSUs each will vest on 01/30/2009 and 01/30/2010.
	04/30/2007(A)	10,000 RSUs each will vest on 04/30/2008, 04/30/2009, 04/30/2010, and 04/30/2011.

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(A) These RSUs are also subject to a performance-based vesting requirement, as described in further detail in the Equity Incentive Compensation section on page 21.

(3)

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Amounts reflecting market value of RSUs are based on the price of \$19.31 per share, which was the closing price of our common stock as reported on NASDAQ on December 28, 2007.

**Non-Qualified Deferred Compensation**

All of our employees in director-level and above positions, including our NEOs, are eligible to defer a portion of their base salary, cash incentives, and/or sales incentives into our Non-Qualified Deferred Compensation Plan ( Deferred Compensation Plan ). We do not pay any additional compensation or guarantee minimum returns to any participant in the Deferred Compensation Plan. We incur only incidental expenses to administer the Deferred Compensation Plan. We might obtain a tax benefit based on payment of a participant's compensation, but any benefit is delayed until funds (including earnings or losses on the amounts invested pursuant to the plan) are eventually distributed.

Pursuant to the Deferred Compensation Plan, eligible employees can defer: (1) up to 100% of their base salary, cash and/or sales incentives if the employee does not participate in our 401(k) plan, and (2) up to 65% of their base salary and cash incentive and up to 80% of their sales incentive if the employee participates in our 401(k) plan. In general, deferral elections are made in November of each year for amounts to be earned in the upcoming year. Participants may invest amounts in individual stocks or funds available under the Deferred Compensation Plan (in general, those traded on a nationally recognized exchange), with the exception of investing in securities of Altera, Xilinx, Inc., or Lattice Semiconductor Corporation. Plan earnings are calculated by reference to actual earnings of mutual funds or other securities chosen by individual participants.

Except for a change in control or certain unforeseeable emergencies (as defined in the Deferred Compensation Plan), benefits are not distributed until a distribution event has occurred. At the election of each participant, the distribution event may be: (1) the attainment of a specified date or age; (2) the earlier of a specified date or age, or termination; or (3) termination of employment. Distributions can be made in the form of cash or in kind, and the method of distribution can be a lump sum payment or annual installments (not to exceed ten years).

The following table provides information regarding contributions, earnings and the aggregate balance of non-qualified deferred compensation for our NEOs in fiscal 2007.

**NON-QUALIFIED DEFERRED COMPENSATION**

Name (a)	Executive Contributions in Last FY \$(1) (b)	Registrant Contributions in Last FY \$( (c)	Aggregate Earnings in Last FY \$( (d)	Aggregate Withdrawals/ Distributions \$( (e)	Aggregate Balance at Last FYE \$(2) (f)
John P. Daane	91,500		36,759		835,035
Timothy R. Morse					
James W. Callas	65,946		20,106		418,428
Misha Burich	276,218		149,430		1,925,468
Jordan S. Plofsky					
George Papa	60,201		15,046		325,824

- (1) To the extent that a contribution was made from base salary, that amount is also included in the fiscal 2007 amounts shown in column (c) of the Summary Compensation Table on page 24. Contributions made from cash and/or sales incentives are reflected in the fiscal 2006 amounts shown in column (g) of the Summary Compensation Table because such amounts were earned in fiscal 2006 but paid, and therefore contributed, in fiscal 2007.
- (2) Amounts shown in column (f) were previously reported as salary and/or cash incentives in fiscal 2007 and prior fiscal years, as applicable.



**Equity Compensation Plan Information**

The following table provides information as of December 28, 2007 regarding equity compensation plans approved and not approved by our security holders.

**EQUITY COMPENSATION PLAN INFORMATION**

<b>Plan Category</b>	<b>Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants, and Rights</b> (a)	<b>Weighted-Average Exercise Price of Outstanding Options, Warrants, and Rights</b> (\$/Sh) (b)	<b>Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a))</b> (c)
Equity Compensation Plans Approved by Security Holders	48,236,086(1)(2)	\$ 21.33(3)	15,077,708(4)
Equity Compensation Plans Not Approved by Security Holders			
<b>Total</b>	<b>48,236,086(5)</b>	<b>\$ 21.33</b>	<b>15,077,708</b>

- (1) Includes shares subject to outstanding options granted under our 2005 Plan and prior equity incentive plans no longer in effect.
- (2) Includes 3,105,219 RSUs granted under our 2005 Plan.
- (3) This weighted-average exercise price does not include outstanding RSUs.
- (4) Consists of 12,591,667 shares available for future issuance under our 2005 Plan (for options and RSUs), and 2,486,041 shares available for future issuance under our 1987 Employee Stock Purchase Plan.
- (5) Does not include information for options assumed in connection with mergers and acquisitions. As of December 28, 2007, a total of 12,656 shares of our common stock with a weighted-average exercise price of \$7.02 were issuable upon exercise of such outstanding options.

**Employment Contracts and Change of Control Arrangements**

In connection with our employment of John P. Daane as our President and Chief Executive Officer in November 2000, we entered into a severance agreement and a change in control severance agreement with Mr. Daane. These agreements were subsequently combined into one (the Severance Agreement), and extended effective as of November 30, 2005. The terms of the Severance Agreement called for its termination on November 30, 2010. However, Mr. Daane chose to voluntarily terminate the Severance Agreement with us in March 2008.

From 1999 through 2005, in connection with our annual performance and review process, executive officers received stock option grant agreements that contained a retirement provision. The provision allowed for an extended vesting and post-termination exercise period, provided that the executive satisfied certain age and service requirements. Specifically, if the executive retired after age fifty-five with at least ten years of service, he/she would have up to five years following retirement to exercise such options. In addition, the options would continue vesting for a period ranging from one to four years depending on: (1) the executive's age at retirement; (2) the length of the remaining vesting period; and (3) the term remaining in the option. In no event could the exercise or vesting periods exceed the ten-year option term. The board of directors subsequently discontinued this stock option retirement benefit for executive officers. For the option grants that contain the retirement provision, the option term will expire before most of our current NEOs satisfy the age and service requirements; Mr. Papa is the only NEO who could potentially recognize any benefit from the provision in the future.

### Compensation Committee Report

The compensation committee operates under a written charter, which was amended in fiscal 2007. The amended and restated charter is attached to this proxy statement and is available in the Corporate Governance section of our website at [www.altera.com](http://www.altera.com), or by calling our Investor Relations Department at (408) 544-7000, or by writing us at Altera Corporation, 101 Innovation Drive, San Jose, California 95134, Attn: Investor Relations.

The compensation committee has reviewed and discussed the Compensation Discussion and Analysis required by Item 402(b) of Regulation S-K with management and, based on such review and discussions, the compensation committee recommended to our board of directors that the Compensation Discussion and Analysis be included in this proxy statement.

Kevin McGarity, Chairman

John Shoemaker, Member

COMPENSATION COMMITTEE

### Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Exchange Act requires our officers and directors and persons who own more than ten percent of a registered class of our equity securities to file reports of ownership on Form 3 and changes in ownership on Form 4 or 5 with the SEC. Such officers, directors, and ten percent stockholders are also required by SEC rules to furnish us with copies of all Section 16(a) reports they file.

Based solely on our review of the copies of such forms received by us or written representations from certain reporting persons that no Forms 5 were required for such persons, we believe that, during the fiscal year ended December 28, 2007, all Section 16(a) filing requirements applicable to our officers, directors, and ten percent stockholders were complied with, except that the Forms 3 and 4 associated with the hiring of Mr. Morse on January 15, 2007 were filed late.

### Audit Committee Report

The audit committee operates under a written charter adopted by our board of directors. The charter is attached to this proxy statement and is available in the Corporate Governance section of our website at [www.altera.com](http://www.altera.com), or by calling our Investor Relations Department at (408) 544-7000, or by writing us at Altera Corporation, 101 Innovation Drive, San Jose, California 95134, Attn: Investor Relations.

In general, the audit committee charter sets forth:

the scope of the audit committee's responsibilities and the means by which it carries out those responsibilities;

the external auditor's accountability to the board of directors and the audit committee; and

the audit committee's responsibility to monitor the independence of the external auditors.

Management is responsible for: (1) preparation, presentation, and integrity of our consolidated financial statements; (2) selection of accounting and financial reporting principles; and (3) maintenance of effective internal controls over financial reporting and procedures designed to ensure compliance with accounting standards, applicable laws, and regulations. PricewaterhouseCoopers, our external auditors, is responsible for performing an independent audit of our consolidated financial statements and internal controls over financial reporting in accordance with auditing standards generally accepted in the U.S.

The audit committee members are not professional accountants or auditors, and their functions are not intended to duplicate or to certify the activities of management or the external auditors. Rather, the audit committee serves a board-level oversight role, providing advice, counsel, and direction to management and the



external auditors on the basis of the information it receives, discussions with management and the external auditors, and the experience of the audit committee's members in business, financial, and accounting matters.

The audit committee members have relied, without independent verification, on management's representation that the consolidated financial statements have been prepared with integrity and objectivity and in conformity with accounting principles generally accepted in the U.S., and that the company maintained effective internal controls over financial reporting as of December 28, 2007. The audit committee's oversight role does not provide it with an independent basis to determine whether management has maintained appropriate accounting and financial reporting principles or policies, or appropriate internal controls and procedures designed to assure compliance with accounting standards and applicable laws and regulations. Furthermore, the audit committee's considerations and discussions with management and the internal and external auditors do not assure that our consolidated financial statements are presented in accordance with accounting principles generally accepted in the U.S., nor that the audit of our financial statements has been carried out in accordance with auditing standards generally accepted in the U.S.

Among other matters, the audit committee monitors the activities and performance of our external auditors, including the audit scope, external audit fees, auditor independence, and the extent to which the external auditors may be retained to perform non-audit services. The audit committee has sole responsibility to retain and replace our external auditors. The audit committee formally reviews the performance of the external auditors on an annual basis to determine whether rotation of audit firms is appropriate. The audit committee also reviews the results of the external auditors' work with regard to the adequacy and appropriateness of our financial reporting, accounting, and internal controls.

#### ***Audit Fees Pre-Approval Policy***

The audit committee has adopted a policy that requires the audit committee to pre-approve all audit, audit-related, and permissible non-audit services performed by the external auditors. At the beginning of each fiscal year, management and the external auditors seek the audit committee's approval of the services the external auditors intend to perform. The chairman of the audit committee, or any other committee member in the chairman's absence, may approve additional services and/or an increase in the amount of fees for services to be performed by the external auditors.

Unless otherwise performed by a comparable body of the board of directors, the audit committee must review and approve all related-person transactions as such term is defined by the SEC and NASDAQ. The policies and procedures for reviewing, approving and monitoring such related-person transactions are discussed in further detail in the "Certain Relationships and Related-Party Transactions" section on page 35.

#### ***Review with Management***

The audit committee reviewed and discussed our audited consolidated financial statements with management. Management represented to the audit committee that our consolidated financial statements were prepared in accordance with accounting principles generally accepted in the U.S.

#### ***Review and Discussions with Independent Registered Public Accounting Firm***

During fiscal 2007, the audit committee held meetings with management and the external auditors to discuss the overall scope and plan for the audit. The audit committee also met with our internal and external auditors, with and without management present, to discuss the results of its independent audit and evaluation of the effectiveness of our internal controls over financial reporting. In addition, the audit committee reviewed and discussed the audited consolidated financial statements for the year ended December 28, 2007 and held discussions with management and the external auditors on the quality, not just the acceptability, of our accounting principles, the reasonableness of significant judgments, and the clarity of disclosures in our

consolidated financial statements. The audit committee reviewed and discussed with management and the internal and external auditors, management's report on the company's internal controls over financial reporting and PricewaterhouseCoopers' audit report on the effectiveness of the company's internal controls over financial reporting.

The audit committee and PricewaterhouseCoopers have discussed the matters required by SAS 61 (Codification of Statements on Accounting Standards), as amended by SAS 89 (Audit Adjustments), and SAS 90 (Audit Committee Communications), which includes, among other items, matters related to the conduct of the audit of our consolidated financial statements and other matters relating to the external auditors' judgments about the acceptability and quality of our accounting principles.

The audit committee also received written disclosures and the letter from PricewaterhouseCoopers required by Independence Standards Board Standard No. 1 (which relates to the external auditors' independence from us and our related entities) and discussed with PricewaterhouseCoopers its independence from us. In addition, the audit committee also determined that the provision of those services set forth in the table below is compatible with maintaining the independence of PricewaterhouseCoopers.

**Conclusion**

Based on its review and discussions with management as well as our internal and external auditors, the audit committee recommended to our board of directors that our audited consolidated financial statements and management's report on internal controls over financial reporting be included in our Annual Report.

Robert W. Reed, Chairman

Robert J. Finocchio, Jr., Member

Gregory E. Myers, Member

Susan Wang, Member

AUDIT COMMITTEE

No portion of this Audit Committee Report shall be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended (the Securities Act), or the Exchange Act, through any general statement incorporating by reference in its entirety the proxy statement in which this report appears, except to the extent that we specifically incorporate this report or a portion of it by reference. In addition, this report shall not be deemed to be filed under either the Securities Act or the Exchange Act.

**Audit, Audit-Related and Tax Fees**

The following table sets forth the types of services and aggregate fees billed or to be billed by PricewaterhouseCoopers for fiscal 2007 and 2006:

Description of Services	2007	2006
Audit Fees(1)	\$ 1,842,000	\$ 4,597,000
Audit-Related Fees(2)	\$ 112,000	\$ 180,000
Tax Fees(3)	\$ 219,000	\$ 324,000
All Other Fees		
<b>Total</b>	<b>\$ 2,173,000</b>	<b>\$ 5,101,000</b>

(1) The services relate to the audit of our annual financial statements, the review of the financial statements included in our quarterly reports, review of documents provided in connection with statutory or regulatory filings, and Section 404 attestation. The fiscal 2006 amount also includes fees of \$2,900,000 for professional services related to the review of our historical stock option practices and related accounting, including the filing of our amended Annual Report on Form 10-K/A for the fiscal year ended December 30, 2005.



- (2) The services include the audits of financial statements prepared for tax purposes, and consultations concerning financial accounting and reporting standards, including work related to adopting FIN 48, implementing SAP, and responding to SEC comment letters.
- (3) Relates to services for tax return compliance and examination services, including worldwide tax planning and consulting services of \$55,000 for 2007 and \$86,000 for 2006.

#### **Certain Relationships and Related-Party Transactions**

The board of directors has adopted written policies and procedures for reviewing, approving and monitoring transactions involving us and related persons. The policy covers: (1) any transaction or series of transactions in which we or any of our subsidiaries was or is to be a participant; (2) in which the amount involved exceeds \$120,000; and (3) in which a related person had or will have any material interest. Related persons include directors and executive officers (or their immediate family members), or stockholders who own more than five percent of our outstanding common stock (or their immediate family members).

On an annual basis, all directors and executive officers must respond to a questionnaire requiring disclosure of any related person transactions, arrangements or relationships (including indebtedness). In addition to these annual reviews, the affected director, executive officer, and our management are required to bring these matters to the attention of the chairman of the board, the lead independent director, or the secretary of the company in advance (or, if not practicable, as promptly as possible). Those persons subsequently decide whether the matter should be brought to the board of directors or to a committee of the board; the board or a committee consisting solely of independent members then reviews the particular transaction.

In performing its review, the board (or applicable committee) considers all relevant standards in determining whether the transaction is in the best interests of the company, including, as applicable: (1) our business interest in entering into the transaction; (2) whether the transaction is made or entered into in the ordinary course of business; (3) whether the transaction is made on substantially the same terms as other comparable transactions involving us and unrelated third parties; (4) the potential for the transaction to lead to an actual or apparent conflict of interest; and (5) alternatives to entering into the transaction with the related person.

### **PROPOSAL TWO APPROVAL OF AMENDMENT**

#### **TO 2005 EQUITY INCENTIVE PLAN**

At the annual meeting, stockholders are requested to approve an amendment to the 2005 Plan to increase by 5,000,000 the number of shares reserved for issuance to a total of 30,991,502. Stockholders are separately requested to approve a second amendment to the 2005 Plan regarding non-employee director equity awards, as discussed in further detail in Proposal Three Approval of Second Amendment to 2005 Equity Incentive Plan beginning on page 41. **Proposal Two and Proposal Three seek to separately amend the 2005 Plan. Therefore, a stockholder's vote on Proposal Two is not counted for the purpose of determining such individual's vote on Proposal Three, and vice-versa.**

#### **Summary**

The 2005 Plan was adopted by our board of directors in March 2005 and approved by our stockholders in May 2005. The 2005 Plan replaced the 1987 Stock Option Plan and the 1996 Stock Option Plan (collectively, the Prior Plans). As originally adopted, the 2005 Plan had 3,000,000 shares of common stock reserved for issuance, plus all available but unissued shares under the Prior Plans. In addition, shares subject to awards granted under the Prior Plans that were outstanding on the effective date of the 2005 Plan and that were subsequently cancelled, forfeited, settled in cash or that expired by their terms were returned to the pool of shares available for grant and issuance under the 2005 Plan. As of the record date, 7,295,131 stock options were granted, 6,988,002 RSUs were granted (equivalent to 15,723,004 options at a ratio of one RSU for every 2.25 options), options to purchase an aggregate of 10,531,817 shares were outstanding and 11,888,930 shares were available for future grant under the 2005 Plan.

The 2005 Plan authorizes the board of directors or a committee of the board to grant the following types of equity to eligible employees, directors and consultants of the company: non-qualified and incentive stock options, SARs, restricted stock, RSUs, and stock bonus awards. The 2005 Plan is structured to provide the board of directors with broad discretion in creating equity incentives to assist us in attracting, retaining, and motivating the best available personnel for the successful conduct of our business. The board of directors believes that an increase in the number of shares reserved for issuance under the 2005 Plan is necessary to attract and hire new employees, to motivate and retain existing employees, and to ensure that a sufficient number of shares are available for equity grants assumed or granted in connection with acquisitions we may undertake.

In February 2008, the board of directors approved an amendment to the 2005 Plan, subject to stockholder approval, to increase the number of shares reserved for issuance by 5,000,000, thereby increasing the total number of shares issuable under the 2005 Plan from 25,991,502 to 30,991,502. Subject to stockholder approval, we plan to register the additional 5,000,000 shares reserved under the 2005 Plan on a Registration Statement on Form S-8.

#### **Vote Required and Board of Directors Recommendation**

The affirmative vote of the holders of a majority of the shares of our common stock present or represented and voting at the annual meeting is required to approve this amendment to the 2005 Plan. **To provide incentives to eligible employees and to align their interests directly with those of our stockholders, our board of directors has unanimously approved the proposed amendment to the 2005 Plan and recommends that stockholders vote FOR such amendment.**

#### **Key Terms of the 2005 Plan**

The following is a summary of the key provisions of the 2005 Plan.

<i>Plan Term:</i>	May 10, 2005 to May 10, 2015
<i>Eligible Participants:</i>	Employees of the company and its subsidiaries, non-employee directors, and consultants are eligible to receive awards. As of the record date, there were approximately 2,469 employees and five non-employee directors eligible to participate.
<i>Shares Authorized:</i>	30,313,002 (as of the record date), which includes 3,000,000 shares authorized for issuance by stockholders upon approval of the plan, plus shares that were available for future grants under the Prior Plans as of May 10, 2005, subject to adjustment only to reflect stock splits and similar events. Shares subject to awards granted under the Prior Plans that were outstanding on May 10, 2005 and that are subsequently cancelled, forfeited, settled in cash or that expired by their terms are returned to the pool of shares available for grant and issuance under the 2005 Plan.
<i>Award Types:</i>	(1) Non-qualified and incentive stock options  (2) Restricted stock awards  (3) Restricted stock units  (4) Stock appreciation rights  (5) Stock bonus awards
<i>Determining the Number of Shares Available for Grant:</i>	For purposes of determining the number of shares available for grant under the 2005 Plan against the maximum number of shares authorized, any full-value award (i.e., anything other than a stock option or SAR) reduces the number of shares available for issuance by 2.25 shares.



<i>Vesting:</i>	Determined by the stock option committee (other than for grants to executive officers and directors, which are determined by the compensation committee). Options and SARs generally vest over four years (25% cliff vesting after one year and monthly thereafter). Restricted stock and RSUs vest over a minimum of three years, including any performance period.
<i>Term of Awards:</i>	Stock options and SARs have a term of no longer than ten years.
<i>Exercise Price:</i>	The exercise price of stock options or SARs granted may not be less than 100% of the fair market value (i.e., the closing price) of our common stock on the date of grant. On December 28, 2007, the closing price of our stock was \$19.31 per share.
<i>Repricing Prohibited:</i>	Repricing a stock option or SAR is prohibited without prior stockholder approval.

**Administration**

The compensation committee administers the 2005 Plan with respect to awards to executive officers and non-employee directors, and the stock option committee administers the 2005 Plan with respect to all other awards. The applicable committee selects the individuals who receive awards, determines the number of shares covered by awards and, subject to the terms and limitations expressly set forth in the 2005 Plan, establishes the terms, conditions and other provisions of any awards granted under the 2005 Plan. The committee interprets the 2005 Plan and establishes, amends and rescinds any rules relating to the plan. The compensation committee may delegate, to a committee of one or more directors or to our executive officers, the ability to grant awards and take certain other actions with respect to participants who are not executive officers or non-employee directors.

**Non-Employee Director Awards**

The 2005 Plan currently provides for automatic stock option grants to non-employee directors based on a fixed number of shares, as specified in the plan. Non-employee directors are also currently eligible to receive other types of awards under the 2005 Plan (including restricted stock, RSUs, bonus stock, stock options and SARs), but such awards are discretionary and are not automatic.

Subject to stockholder approval at the annual meeting, non-employee directors will no longer receive automatic stock option grants upon joining or being re-elected to the board of directors. Instead, the compensation committee will be permitted to exercise limited discretion in deciding the type and amount of equity awards to be granted to a non-employee director upon joining the board of directors and upon re-election at the annual meeting of stockholders. Further detail can be found in *Proposal Three Approval of Second Amendment to 2005 Equity Incentive Plan* beginning on page 41.

Under the current 2005 Plan, when a non-employee director joins the board, he/she receives a 40,000-share option grant on that date, and each director receives a 10,000 share option grant at each subsequent annual stockholders meeting. If a non-employee director joins the board mid-year, then the annual grant for that year is pro-rated. The exercise price for each option granted to a non-employee director is equal to the fair market value per share of our stock on the grant date.

Initial non-employee director grants vest over four years at the rate of 25% on the first anniversary of the grant date and 2.0833% monthly thereafter, which means that the option will fully vest four years from the date of grant. The annual 10,000 share grant vests monthly on a pro-rata basis over one year, as measured from the date of grant. The initial and annual option grants vest only while the non-employee director remains in service with the company as a member of our board or as a consultant. The term of the grants is ten years. In the event of a corporate transaction, such as a merger or sale of substantially all of the company's assets, the vesting of 100% of all automatically granted options granted to non-employee directors accelerates and the grants become exercisable.

**Terms Applicable to Stock Options and Stock Appreciation Rights**

The exercise price of stock options or SARs granted under the 2005 Plan may not be less than 100% of the fair market value (i.e., the closing price) of our common stock on the date of grant. The term may not exceed ten years. Subject to the limitations of the 2005 Plan, the compensation committee in the case of executive officers (and the stock option committee in the case of other eligible participants) determines the terms and conditions applicable to stock option grants and grants of SARs (including vesting and exercisability). The terms and conditions applicable to stock options and SARs may include, among other things, continued employment with the company, the passage of time, or such performance criteria and level of achievement versus such criteria as the compensation committee deems appropriate.

**Terms Applicable to Restricted Stock Awards, Restricted Stock Unit Awards and Stock Bonus Awards**

Restricted stock and RSUs vest over a minimum of three years, including any applicable performance period. Subject to the limitations of the 2005 Plan, the compensation committee in the case of executive officers (and the stock option committee in the case of other eligible participants) determines the terms and conditions applicable to the granting of restricted stock, RSUs, and stock bonuses. The terms and conditions may include, among other things, continued employment with the company, the passage of time, or such performance criteria and level of achievement versus such criteria as the respective committee deems appropriate.

**Eligibility Under Section 162(m)**

Section 162(m) of the Code permits performance-based compensation that meets the requirements established by the U.S. Internal Revenue Service to be excluded from the limitation on deductibility of compensation in excess of \$1,000,000 paid to certain specified senior executives. In order to meet the requirements of Section 162(m), the 2005 Plan limits awards to individual participants as follows: no person may receive more than 2,000,000 shares issuable as awards in any fiscal year, other than new employees, who may receive up to a maximum of 2,000,000 additional shares issuable as awards granted in the fiscal year in which they first commence employment. The foregoing limits are greater than the number of options that we have granted to any individual in the past. We do not currently intend to significantly increase our equity awards to executive officers.

Awards may, but need not, include performance criteria that satisfy Section 162(m). To the extent that awards are intended to qualify as performance-based compensation under Section 162(m), the performance criteria will be one of the following criteria, either individually, alternatively, or in any combination, applied to either the company as a whole or to a business unit or subsidiary, either individually, alternatively, or in any combination, and measured either annually or cumulatively over a period of years, on an absolute basis or relative to a pre-established target, to previous years' results or to a designated comparison group, in each case as specified by the compensation committee in the award:

Net revenue and/or net revenue growth	Individual business objectives
Operating income and/or operating income growth	Operating cash flow return on income
Net income and/or net income growth	Economic value added
Earnings per share and/or earnings per share growth	Return on equity
Adjusted operating cash flow return on income	Total stockholder return and/or total stockholder return growth

Earnings before income taxes and amortization and/or earnings before income taxes and amortization growth

To the extent that an award under the 2005 Plan is designated as a performance award, but is not intended to qualify as performance-based compensation under Section 162(m), the performance criteria can include the achievement of strategic objectives as determined by the compensation committee.

Notwithstanding satisfaction of any performance criteria described above, to the extent specified at the time an award is granted, the number of shares of common stock, stock options or other benefits granted, issued, retainable and/or vested under an award on account of satisfaction of performance criteria may be reduced by the committee on the basis of such further considerations as the compensation committee in its sole discretion determines.

#### **Transferability**

The committee has the discretion to permit an award recipient to transfer his/her award to an authorized transferee (as defined in the 2005 Plan). Without such permission, an award may not be transferred, sold, pledged, assigned, hypothecated or disposed of in any manner other than by will or by the laws of descent and distribution. No award may be made subject to execution, attachment or other similar process.

#### **Amendments**

The board may terminate, amend or suspend the 2005 Plan, provided that no action may be taken by the board (except those described in Adjustments ) without stockholder approval to:

- (1) Increase the number of shares that may be issued under the 2005 Plan;
- (2) Permit the repricing of outstanding stock options or SARs under the 2005 Plan;
- (3) Extend the term of the 2005 Plan;
- (4) Expand the class of persons eligible to participate in the 2005 Plan; or
- (5) Otherwise implement any amendment to the 2005 Plan required to be approved by stockholders under NASDAQ rules.

#### **Adjustments**

In the event of a stock dividend, recapitalization, stock split, combination of shares, extraordinary dividend of cash or assets, reorganization, or exchange of our common stock, or any similar event affecting our common stock, the compensation committee will adjust the number and kind of shares available for grant under the 2005 Plan, and subject to the various limitations set forth in the 2005 Plan, the number and kind of shares subject to outstanding awards under the 2005 Plan, and the exercise or settlement price of outstanding stock options and other awards.

#### **Corporate Transactions**

In the event of a corporate transaction (as defined in the 2005 Plan), any or all outstanding awards may be assumed or replaced by a successor corporation, which assumption or replacement shall be binding on all award recipients. In the alternative, a successor corporation may substitute equivalent awards or provide substantially similar consideration to award recipients as was provided to our stockholders (after taking into account the existing provisions of outstanding awards). The successor corporation may also issue, in place of our outstanding shares held by award recipients, substantially similar shares or other property subject to repurchase restrictions no less favorable to such award recipient. In the event such successor corporation, if any, refuses to assume or replace the awards outstanding under the 2005 Plan pursuant to a corporate transaction or if there is no successor corporation due to a dissolution or liquidation of the company, outstanding awards shall immediately vest as to 100% of the shares subject thereto at such time and on such conditions as our board of directors determines, and outstanding awards shall expire at the closing of the transaction or at the time of dissolution or liquidation.

#### **Federal Income Tax Consequences**

The following summary constitutes a brief overview of the principal U.S. federal income tax consequences relating to awards that may be granted under the 2005 Plan based upon current tax laws. This summary is not intended to be exhaustive and does not describe state, local, or foreign tax consequences.



**Non-Qualified Stock Options.** Non-qualified stock options do not qualify for any special tax benefits to the optionee. An optionee will not recognize any taxable income at the time he/she is granted a non-statutory option. Upon exercise of the stock option, the optionee will generally recognize compensation income for federal tax purposes measured by the excess, if any, of the then fair market value of the shares at the time of exercise over the exercise price. We are generally entitled to a tax deduction equal to the ordinary income recognized by the participant in connection with such exercise. The participant's basis in the stock issued upon exercise of the option, referred to as the option stock, will be increased by the amount of the compensation income recognized. Upon the sale of the shares issued upon exercise of a non-statutory stock option, any further gain or loss recognized will be treated as capital gain or loss and will be treated as short-term capital gain or loss if the shares have been held for less than one year.

**Incentive Stock Options.** The Code provides optionees with favorable federal income tax treatment of stock options that qualify as incentive stock options. If a stock option is treated as an incentive stock option, the optionee will not recognize income upon grant or exercise of the stock option (unless the alternative minimum tax rules apply). The company will not be allowed a tax deduction in connection with the exercise of an incentive stock option.

Upon the sale of the shares issued upon exercise of an incentive stock option at least: (1) two years after the grant of the stock option; and (2) one year after exercise of the stock option, referred to as the statutory holding periods, any gain will be taxed to the optionee as long-term capital gain. If the statutory holding periods are not satisfied (i.e., the optionee makes a disqualifying disposition), the optionee will recognize compensation income equal to the excess, if any, of the lower of: (1) the fair market value of the stock at the date of the stock option exercise; or (2) the sale price of the stock, over the option price. We are generally entitled to a tax deduction equal to the ordinary income recognized by the participant in connection with such sale or disposition. The participant's basis in the option stock will be increased by the amount of compensation income recognized. Any further gain or loss recognized on a disqualifying disposition of the shares will be characterized as capital gain or loss. Different rules may apply if shares are purchased by an optionee who is subject to Section 16(b) of the Exchange Act, and who subsequently disposes of such shares prior to the expiration of the statutory holding periods.

**Stock Appreciation Rights.** A grant of a SAR (which can only be settled in our common stock) has no federal income tax consequences at the time of grant. Upon exercise of SARs, the value of the shares received is generally taxable to the recipient as ordinary income, and the company generally will be entitled to a corresponding tax deduction.

**Restricted Stock.** A participant receiving restricted stock may be taxed in one of two ways: the participant (1) pays tax when the restrictions lapse (i.e., they become vested) or (2) makes a special election to pay tax in the year the grant is made. At either time, the value of the award for tax purposes is the excess of the fair market value of the shares at that time over the amount (if any) paid for the shares. This value is taxed as ordinary income and is subject to income tax withholding. We receive a tax deduction at the same time and for the same amount taxable to the participant. If a participant elects to be taxed at grant, then, when the restrictions lapse, there will be no further tax consequences attributable to the awarded stock until disposition.

**Restricted Stock Units.** In general, no taxable income is realized upon the grant of a RSU. The participant will generally include in ordinary income the fair market value of the award of stock at the time shares of stock are delivered to the participant or at the time the RSU vests. We generally will be entitled to a tax deduction at the time and in the amount that the participant recognizes ordinary income.

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**PROPOSAL THREE APPROVAL OF SECOND AMENDMENT TO  
2005 EQUITY INCENTIVE PLAN**

At the annual meeting, stockholders are requested to approve a second amendment to the 2005 Plan regarding non-employee director equity awards. Stockholders are separately requested to approve an amendment to the 2005 Plan which relates to increasing the number of shares reserved for issuance, as discussed in further detail in Proposal Two Approval of Amendment to 2005 Equity Incentive Plan beginning on page 35. **Proposal Two and Proposal Three seek to separately amend the 2005 Plan. Therefore, a stockholder's vote on Proposal Three is not counted for the purpose of determining such individual's vote on Proposal Two, and vice-versa.**

**Summary**

In February 2008, the board of directors approved an amendment to the 2005 Plan related to non-employee director equity awards. Currently, the 2005 Plan provides for automatic stock option grants to non-employee directors based on a fixed number of shares, as specified in the plan. Subject to stockholder approval at the annual meeting, non-employee directors will no longer receive automatic stock option grants upon joining or being re-elected to the board of directors. Instead, the compensation committee will be permitted to exercise limited discretion in deciding the type and amount of equity awards to be granted to a non-employee director upon joining the board of directors and upon re-election at the annual meeting of stockholders, as described in further detail below.

**Vote Required and Board of Directors Recommendation**

The affirmative vote of the holders of a majority of the shares of our common stock present or represented and voting at the annual meeting is required to approve the second amendment to the 2005 Plan. **To provide incentives to eligible directors and to align their interests directly with those of our stockholders, our board of directors has unanimously approved the second proposed amendment to the 2005 Plan and recommends that stockholders vote FOR such amendment.**

**Key Terms of the 2005 Plan**

The key provisions of the current 2005 Plan are described in further detail in Proposal Two Approval of Amendment to 2005 Equity Incentive Plan on page 36.

**Non-Employee Director Awards**

Subject to stockholder approval at the annual meeting, at the discretion of the compensation committee, when a non-employee director joins the board, he/she may be granted either: (i) up to a maximum number of shares subject to a restricted stock unit ( RSU ) and/or a restricted stock grant having an aggregate fair market value (i.e., the closing price of our common stock on the date of grant, as reported on NASDAQ) equal to \$300,000, as measured on the date of grant, or (ii) up to a maximum aggregate number of 40,000 shares subject to a stock option and/or stock appreciation right ( SAR ) (the Initial Grant ).

Following the date of each annual stockholders meeting, each non-employee director who is re-elected may be granted, at the discretion of the compensation committee, either: (i) up to a maximum number of shares subject to an RSU and/or a restricted stock grant having an aggregate fair market value equal to \$150,000, as measured on the date of grant, or (ii) up to a maximum aggregate number of 20,000 shares subject to a stock option and/or SAR (a Succeeding Grant ).

RSUs and restricted stock grants vest and are exercisable as determined by the compensation committee, provided that RSUs and restricted stock vest over a minimum of three years as measured from the date of grant. The term of any stock option and/or SAR grant is ten years. The exercise price of any stock option and/or SAR

grant is equal to the fair market value of our stock on the grant date. Non-employee directors are also eligible to receive other types of awards under the 2005 Plan (including bonus stock), but such awards are discretionary and are not automatic.

**PROPOSAL FOUR APPROVAL OF AMENDMENT TO  
1987 EMPLOYEE STOCK PURCHASE PLAN**

At the annual meeting, stockholders are requested to approve an amendment to the 1987 Employee Stock Purchase Plan, referred to as the 1987 Purchase Plan, to increase by 1,000,000 the number of shares reserved for issuance.

**General**

The 1987 Purchase Plan was adopted by our board of directors in August 1987 and approved by our stockholders in September 1987. As originally adopted, the 1987 Purchase Plan had 200,000 shares of common stock reserved for issuance. Through the years, the board of directors has authorized, and stockholders have approved, amendments to the 1987 Purchase Plan to increase the number of shares reserved for issuance. Most recently, at the annual meeting in 2007, stockholders approved an amendment increasing the number of shares reserved for issuance under the 1987 Purchase Plan by an aggregate of 1,000,000 shares to 22,700,000. Subject to stockholder approval, we plan to register the additional 1,000,000 shares reserved under the 1987 Purchase Plan on a Registration Statement on Form S-8.

As of the record date, 19,213,959 shares were issued pursuant to the exercise of options to purchase shares under the 1987 Purchase Plan, and 2,486,041 shares were available for future grant.

**Vote Required and Board of Directors Recommendation**

The affirmative vote of the holders of a majority of the shares of our common stock present or represented and voting at the annual meeting is required to approve the amendment to the 1987 Purchase Plan. **Our board of directors has unanimously approved the proposed amendment and recommends that the stockholders vote FOR such amendment.**

**Essential Features of the 1987 Purchase Plan**

**General**

The 1987 Purchase Plan, and the right of participants to make purchases under the 1987 Purchase Plan, is intended to qualify as an Employee Stock Purchase Plan under the provisions of Sections 421 and 423 of the Code. The provisions of the 1987 Purchase Plan are, accordingly, construed so as to extend and limit participation in a manner consistent with the requirements of those Code sections.

The 1987 Purchase Plan is not a qualified deferred compensation plan under Section 401(a) of the Code, and is not subject to the provisions of ERISA.

**Purpose**

The purpose of the 1987 Purchase Plan is to provide our employees, including employees of certain subsidiaries, with an opportunity to purchase our common stock through accumulated payroll deductions.

**Administration**

The 1987 Purchase Plan may be administered by our board of directors or a committee of board members appointed by the board of directors. Once appointed, committee members serve until directed otherwise by the board. The administration, interpretation, or application of the 1987 Purchase Plan by the board or committee is

final, conclusive, and binding upon all participants to the full extent provided by law. No charges for administrative or other costs may be made against the payroll deductions of a participant in the 1987 Purchase Plan. Members of the board of directors receive no additional compensation for administering the 1987 Purchase Plan. Currently, Mr. Daane is the sole member of the committee that administers the 1987 Purchase Plan.

***Eligibility***

Any person, including an executive officer, who is customarily employed for at least twenty hours per week and more than five months in a calendar year by us or any of our designated subsidiaries, as of an offering date, is eligible to participate in the 1987 Purchase Plan. The offering date is the first trading day of a given offering period. Notwithstanding the foregoing, no participant shall be granted an option to purchase shares under the 1987 Purchase Plan:

that would permit the participant's rights to purchase stock under all of our employee stock purchase plans and those of our subsidiaries to accrue at a rate that exceeds \$21,250 (which is eighty-five percent of \$25,000 of the fair market value of such stock determined at the time such stock option is granted) for each calendar year in which such option is outstanding at any time; or

if, after the grant of an option, the participant would own common stock or options to purchase common stock equal to five percent or more of the total combined voting power or value of all classes of our capital stock or capital stock of any of our subsidiaries. For purposes of the 1987 Purchase Plan, the employment relationship is treated as continuing intact while a participant is on sick leave or other leave of absence approved by us. However, if the period of leave exceeds ninety days and the participant's right to re-employment is not guaranteed either by statute or by contract, the participant will be deemed to have withdrawn from the 1987 Purchase Plan on the ninety-first day of such leave.

Furthermore, if, on a purchase date, the number of shares that would otherwise be subject to stock options under the 1987 Purchase Plan exceeds the number of shares available for sale as of the beginning of the applicable offering period, a pro-rata allocation of the available shares is made in as uniform and as equitable a manner as is practicable.

As of the record date, approximately 2,532 employees were eligible to participate in the 1987 Purchase Plan.

***Enrollment in the Plan***

Eligible employees become participants in the 1987 Purchase Plan by completing a subscription agreement authorizing payroll deductions prior to the applicable offering date. A person who becomes employed after the commencement of an offering period may not participate in the 1987 Purchase Plan until the commencement of the next offering period.

***Offering Periods; Purchase Periods***

Typically, the 1987 Purchase Plan is implemented by consecutive, overlapping twelve-month offering periods, with a new offering period commencing on the first trading day on or after May 1 and November 1 of each year and terminating on the trading day on or before April 30 and October 31. Each twelve-month offering period generally includes two six-month purchase periods. In the future, the board of directors may alter the duration of the offering periods, including the commencement dates, with respect to future offerings without stockholder approval if such change is announced prior to the scheduled beginning of the first offering period to be affected.

***Purchase Price***

The purchase price at which shares are sold under the 1987 Purchase Plan is eighty-five percent of the lower of the fair market value of a share of our common stock on: (1) the first trading 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: (1) automatically withdrawn from the current offering period following the purchase of shares on the purchase date; and (2) automatically re-enrolled in the immediately following offering period. The 1987 Purchase Plan provides that, because our common stock is currently traded on NASDAQ, the fair market value of a share of our common stock on a given date is the closing price on NASDAQ on such date.

***Payment of the Purchase Price; Payroll Deductions***

The payroll deductions accumulated during the offering period are applied to the purchase of the shares. The deductions may not exceed ten percent of a participant's eligible compensation received on each payday. The aggregate of such payroll deductions during the offering period cannot exceed ten percent of a participant's aggregate eligible compensation during such offering period up to a maximum of \$21,250 (which is eighty-five percent of \$25,000 of the fair market value of such stock determined at the time such stock option is granted) for each calendar year. Eligible compensation is defined as all regular straight time gross earnings, plus sales commissions and sales incentives earned during the entire offering period, but exclusive of payments for overtime, shift premium, other incentive payments, bonuses, or other compensation.

Payroll deductions commence on the first payday following the first day of the offering period and continue at the same percentage rate until the end of the offering period unless sooner terminated. No interest accrues on a participant's payroll deductions. At any time during the offering period, a participant may discontinue or decrease his/her payroll deductions without withdrawing amounts previously contributed. A participant may increase his/her rate of payroll deductions only for a subsequent offering period and may not increase his/her rate of payroll deductions during an outstanding offering period in which such participant is currently participating.

All payroll deductions received or held by us under the 1987 Purchase Plan may be used by us for any corporate purpose; we are not obligated to segregate such payroll deductions. Until the shares are issued, participants only have the rights of an unsecured creditor.

***Purchase of Stock; Grant of Options***

On the first day of each offering period, each eligible employee participating in the 1987 Purchase Plan is granted an option to purchase up to a maximum of 10,000 shares of our common stock during each purchase period. The exact number of shares is determined by dividing such employee's accumulated payroll deductions at the end of the purchase period by the option purchase price determined as described above, subject to the limitations set forth in the 1987 Purchase Plan. For future offering periods, the board of directors may increase or decrease, in its absolute discretion, the maximum number of shares of our common stock that may be purchased during each purchase period of the offering period.

***Exercise of Options***

Unless the participant's participation is discontinued, each participant's option for the purchase of the maximum number of full shares is exercised automatically at the end of the purchase period at the applicable price.

***Withdrawal***

A participant may withdraw all, but no less than all, the payroll deductions credited to his/her account under the 1987 Purchase Plan at any time prior to the last day of the offering period by giving written notice to us. After receipt of a notice of withdrawal: (1) all of the participant's payroll deductions credited to his/her account are promptly refunded; (2) the participant's option for the current period automatically terminates; and (3) no further payroll deductions for the purchase of shares are made during the offering period.

A participant's withdrawal from an offering does not have any effect upon such participant's eligibility to participate in subsequent offerings under the 1987 Purchase Plan or in any similar plan that we may adopt.

***Termination or Interruption of Employment***

Upon termination or interruption of a participant's employment for any reason, including retirement or death, prior to the last day of the offering period, the payroll deductions credited to the participant's account will be returned to such participant, or, in the case of a participant's death, to the person or persons entitled thereto as specified in the participant's subscription agreement, and his/her option will automatically terminate.

***Adjustments upon Changes in Capitalization or Merger***

In the event any change, such as a stock split or payment of a stock dividend, is made in our capitalization that increases or decreases the number of outstanding shares of common stock without our receipt of additional consideration, an appropriate adjustment will be made in the shares subject to purchase and in the purchase price per share, subject to any required action by our stockholders. In the event of our proposed dissolution or liquidation, the offering period then in progress will be shortened and a new exercise date will be set. At least ten days prior to the new exercise date, the board of directors will notify the participant that the exercise date has been changed and that the participant's option will be exercised automatically, unless the participant has withdrawn from the offering period prior to the new exercise date. In the event of our merger with or into another corporation, or the sale of substantially all of our assets, the participant's outstanding option will be assumed or substituted for or by the successor corporation, or a parent or subsidiary of such successor corporation. If the successor corporation refuses to assume or provide a substitute for the participant's outstanding options, we will take the same actions under the plan as previously described with respect to a proposed dissolution or liquidation.

***Nonassignability***

Neither payroll deductions credited to a participant's account nor any rights with regard to the exercise of an option or to receive shares under the 1987 Purchase Plan may be assigned, transferred, pledged, or otherwise disposed of in any way by the participant, other than by will, the laws of descent and distribution, or as provided in the 1987 Purchase Plan. Any such attempt at assignment, transfer, pledge, or other disposition shall be without effect, except that we may treat such act as an election to withdraw from the 1987 Purchase Plan.

***Amendment and Termination of the Plan***

The board of directors may, at any time or from time to time, amend or terminate the 1987 Purchase Plan, except that such termination shall not affect options previously granted nor, generally, may any amendment make any change in an option previously granted that adversely affects the rights of any participant. To the extent necessary to comply with Section 423 of the Code, we shall obtain stockholder approval in such a manner and to such a degree as required.

Without stockholder approval and without regard to whether any participant rights may be adversely affected, the board of directors may:

- (1) change the offering periods;
- (2) limit the frequency and/or number of changes in the amount withheld during an offering period;
- (3) establish the exchange ratio applicable to amounts withheld in a currency other than U.S. dollars;
- (4) permit payroll withholding in excess of the amount designated by a participant in order to adjust for delays or mistakes in our processing of properly completed withholding elections;
- (5) establish reasonable waiting and adjustment periods and/or accounting and crediting procedures to ensure that amounts applied toward the purchase of our common stock for each participant properly correspond with amounts withheld from the participant's compensation; and



- (6) establish such other limitations or procedures that the board of directors determines, in its sole discretion, are advisable and that are consistent with the 1987 Purchase Plan.
- The 1987 Purchase Plan continues in effect until terminated as described above.

***Tax Information***

If the shares are sold or disposed of, including by way of gift: (1) at least two years after the offering date (the first day of the offering period during which shares were purchased); and (2) more than one year after the date on which shares were transferred to the employee, then the lesser of: (a) the excess of the fair market value of the shares at the time of such disposition over the purchase price of the shares subject to the option, referred to as the option price; or (b) fifteen percent of the fair market value of the shares on the offering date, will be treated as ordinary income to the participant. The employee's basis of the option stock will be increased by the amount of the compensation income recognized. Any further gain or loss upon such disposition will be treated as long-term capital gain or loss. If the shares are sold and the sales price is less than the option price, there is no ordinary income and the participant has a capital loss for the difference.

If the shares are sold or disposed of, including by way of gift or by exchange in connection with the exercise of an incentive stock option, before the expiration of the holding periods described above, then the excess of the fair market value of the shares on the date of option exercise over the option price will be treated as ordinary income to the participant. This excess will constitute ordinary income in the year of sale or other disposition even if no gain is realized on the sale or a gratuitous transfer of the shares is made. The basis of the option stock will be increased by the amount of the compensation income recognized. Any further gain or loss recognized in connection with any such sale or exchange will be treated as capital gain or loss and will be treated as short-term capital gain or loss if the shares have been held less than one year.

If shares are sold or disposed of before the expiration of the statutory holding periods, we are generally entitled to a tax deduction equal to the ordinary income recognized by the participant in connection with such sale or disposition.

The foregoing summary of the effect of federal income taxation upon the participant and us with respect to the shares purchased under the 1987 Purchase Plan does not purport to be complete. Reference should be made to the applicable provisions of the Code. In addition, the summary does not discuss the tax implications of a participant's death or the provisions of the income tax laws of any municipality, state, or foreign country in which the participant may reside.

***Participation in the 1987 Purchase Plan***

Eligible employees participate in the 1987 Purchase Plan voluntarily and each such employee determines his/her level of payroll deductions within the guidelines fixed by the 1987 Purchase Plan. Accordingly, future purchases under the 1987 Purchase Plan are not determinable at this time.

**PROPOSAL FIVE RATIFICATION OF APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

At the annual meeting, stockholders are requested to ratify the audit committee's appointment of PricewaterhouseCoopers as our independent registered public accounting firm for the fiscal year ending December 26, 2008. We expect that a representative of PricewaterhouseCoopers will be present at the annual meeting, will have the opportunity to make a statement if he/she desires to do so, and will be available to answer any appropriate questions.

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**Vote Required and Board of Directors Recommendation**

Although not required, the board of directors submits its selection of our independent registered public accounting firm for ratification by stockholders to ascertain the view of stockholders regarding such selection. The affirmative vote of the holders of a majority of the shares of our common stock present or represented and voting at the annual meeting are required to ratify this proposal. Whether the proposal is approved or defeated, the audit committee may reconsider its selection. **The board of directors has unanimously approved this proposal and recommends that stockholders vote FOR the ratification of the selection of PricewaterhouseCoopers LLP.**

**STOCKHOLDER PROPOSALS**

In accordance with Rule 14a-8 under the Exchange Act and our bylaws, any stockholder who intends to submit a proposal at our 2009 annual meeting of stockholders and who wishes to have the proposal considered for inclusion in the proxy statement for that meeting must, in addition to complying with applicable laws and regulations governing submission of such proposals, deliver the proposal to us for consideration no earlier than September 29, 2008 and no later than November 28, 2008. Such proposal should be sent to us, care of our Secretary, Altera Corporation, 101 Innovation Drive, San Jose, California 95134. Each proposal must set forth: (1) a brief description of the business the stockholder desires to bring before the annual meeting and the reasons for conducting such business at the annual meeting; (2) the name and record address of the stockholder proposing such business; (3) the class and number of shares of the company that are beneficially owned by the stockholder; and (4) any material interest of the stockholder in such business.

If a stockholder wishes to present a proposal before the 2009 annual meeting of stockholders, but does not wish to have the proposal considered for inclusion in the proxy statement, the stockholder must give written notice to us at the address noted above. The notice must be submitted by February 12, 2009 (45 calendar days prior to the anniversary of the mailing date of the Notice of Internet Availability of Proxy Materials). If a stockholder submits a proposal after February 12, 2009, our proxy holders will be allowed to use their discretionary voting authority to vote against the stockholder proposal when and if the proposal is raised at our 2009 annual meeting.

**It is important that proxies be cast promptly. Therefore, stockholders, whether or not they expect to attend the meeting in person, are requested to cast their proxy as instructed in the Notice of Internet Availability of Proxy Materials, over the Internet, or by telephone, or by requesting a paper proxy card. If you request a paper proxy card, please complete, date, and sign the enclosed form of proxy and return it promptly in the envelope provided. By returning your proxy promptly, you can help us avoid the expense of follow-up mailings to ensure a quorum so that the meeting can be held. We encourage you to vote via the Internet.**

Dated: March 28, 2008

For the Board of Directors  
ALTERA CORPORATION  
/s/ Katherine E. Schuelke

Katherine E. Schuelke  
*Secretary*

**THE BOARD OF DIRECTORS OF ALTERA CORPORATION**

**AMENDED AND RESTATED**

**NOMINATING AND GOVERNANCE COMMITTEE CHARTER**

**AUTHORITY AND PURPOSE**

The Nominating and Governance Committee (the "Committee") of Altera Corporation is appointed by Altera's Board of Directors (the "Board") (1) to identify individuals qualified to become Board members and to nominate directors for election; (2) to lead the Board in its annual review of the performance, size, and membership of the Board and its committees; (3) to nominate for election by the Board the members of each Board committee including the chair of each committee; (4) to lead the Board of Directors in a regular review of succession plans for members of executive management and to ensure that the Board develops a succession plan for the Chief Executive Officer ("CEO"); and (5) to review and make recommendations to the Board concerning corporate governance matters. The Committee shall undertake those specific duties and responsibilities listed below and such other duties as the Board may from time to time prescribe. All powers of the Committee are subject to any restrictions imposed by Altera's Bylaws and applicable law.

**MEMBERSHIP**

The Committee members (the "Members") shall be appointed by the Board and will serve at the discretion of the Board. The Committee will consist of at least two (2) members of the Board; however, in the absence of a two-person Committee, the Committee's responsibilities may be performed by the Chairman of the Committee. Each Member of the Committee must meet the independence requirements of The Nasdaq Stock Market and any other applicable law. Unless otherwise directed by the Board, each Member shall serve until such Member ceases to serve as a member of the Board, or until the Board has duly appointed his or her successor.

**DUTIES AND RESPONSIBILITIES**

1. The Committee shall have the authority to retain and terminate any search firm to be used to identify director candidates and shall have authority to approve the search firm's fees and other retention terms. The Committee shall also have authority to obtain advice and assistance from internal or external legal, accounting, or other advisors regarding matters within the Committee's duties and responsibilities. The Committee shall advise management when a search firm or advisor has been retained and inform management of the cost of any such services.
2. The Committee shall seek individuals qualified to become Board members and shall nominate directors for election by the stockholders at the annual meeting or by the Board when an election is required prior to the annual meeting of stockholders. In considering potential new directors, the Committee will review individuals from various disciplines and backgrounds. Among the qualifications to be considered in the selection of candidates are skills, relevant business experience and expertise (such as manufacturing, technology, financial, marketing, or international knowledge), diversity, and ability and willingness to devote the necessary time to board service on an ongoing basis. A review is also to be made of the activities and associations of each candidate to ensure that there is no legal impediment, conflict of interest, or other consideration that might hinder or prevent service on the Board.
3. The Committee is responsible for conducting an annual review of the performance, size and membership of the Board and the Board's committees as well as a review of the performance and contributions of each director. The Committee's assessment shall be discussed with the Board.

4. The Committee may form and delegate authority to subcommittees when appropriate.
5. The Committee shall keep abreast of developments and best practices in corporate governance matters and shall review Altera's Corporate Governance Guidelines at least annually and, where appropriate, recommend any changes for approval by the Board.
6. The Committee shall ensure that the Board develops a succession plan for the CEO and also ensure that the CEO regularly reports to the Board on potential successors for other executive officers. The Committee shall work with the CEO to prepare for the Board's review of succession plans.
7. The Committee shall annually review and reassess the adequacy of this Charter and propose any changes to the Board for approval.

**CONDUCT OF BUSINESS**

The Committee shall conduct its business in accordance with this Charter and any direction by the Board. The Committee shall report, at least annually, to the Board. Prior to the annual meeting of stockholders, the Committee will nominate and report to the Board the persons who will be the nominees for election to the Board of Directors at the annual meeting of stockholders. As part of this process, the Committee will consider candidates recommended by Altera's stockholders. The Committee shall annually review its own performance.

**MEETINGS**

The Committee will meet at least annually.

**MINUTES**

The Committee will maintain written minutes of its meetings, which minutes will be filed with the minutes of the meetings of the Board.

**THE BOARD OF DIRECTORS OF ALTERA CORPORATION**

**AMENDED AND RESTATED**

**COMPENSATION COMMITTEE CHARTER**

**AUTHORITY AND PURPOSE**

The Compensation Committee (the Committee) of Altera Corporation is appointed by Altera's Board of Directors (the Board) (1) to lead the independent members of the Board of Directors in a discussion and evaluation of the performance of the CEO on at least an annual basis, (2) to evaluate and establish the compensation of the CEO and other executive officers, and (3) to evaluate and make recommendations to the Board of Directors regarding the compensation of directors. The Committee shall undertake those specific duties and responsibilities listed below and such other duties as the Board of Directors may from time to time prescribe. All powers of the Committee are subject to the restrictions designated in the Corporation's Bylaws and by applicable law.

**MEMBERSHIP**

The Committee members (the Members) shall be appointed by the Board of Directors and will serve at the discretion of the Board. The Committee will consist of at least two (2) members of the Board. Each Member must meet the independence requirements of The NASDAQ Stock Market and any other applicable law, including Section 162(m) of the Internal Revenue Code and Rule 16b-3 promulgated under the 1934 Securities and Exchange Act. The duties of the Committee may also be performed by a majority of those members of the Board of Directors who meet the foregoing independence requirements. Unless otherwise directed by the Board, each Member shall serve until such Member ceases to serve as a member of the Board, or until the Board has duly appointed his or her successor.

**DUTIES AND RESPONSIBILITIES**

1. The Committee is responsible for evaluating and establishing the compensation of the CEO. This includes salary, awards in cash, restricted stock, stock options, long term incentives plans, and any other benefits or compensation. The Committee will also evaluate and approve, upon the recommendation of the CEO, the compensation of other executive officers, including salary, awards in cash, restricted stock, stock options, long term incentives plans, and any other benefits or compensation. In performing these responsibilities, the Committee shall consider the views of the other independent members of the Board of Directors, including their evaluation of the performance of the CEO and other executive officers, and data regarding peer companies obtained from published information and other available sources. The Committee will make an objective and subjective evaluation of the performance of the CEO and other executive officers on at least an annual basis.
2. On an annual basis, the Committee is responsible for reviewing and discussing with management the Compensation Discussion and Analysis (the CD & A) required by Item 402(b) of Regulation S-K, and based on such review and discussions, the Committee will recommend to the Board of Directors that the CD & A be included in the proxy statement for the annual meeting of stockholders.
3. The Committee also reviews and makes recommendations to the Board regarding the compensation of the members of the Board, taking into consideration data regarding peer companies and changes in duties and responsibilities of the Board and its committees.
4. In consultation with the CEO, the Committee may also review and establish general compensation policies and programs for employees other than the CEO and executive officers. The Committee reviews the equity compensation program and other incentive programs for their effectiveness in recruiting and retaining key



employees and for their impact on the company. The Committee will ensure that management reviews with the Board of Directors on at least an annual basis the Company's equity compensation practices to ensure they comply with applicable law and are consistent with best practices.

5. The Committee may form and delegate authority to subcommittees when appropriate.
6. The Committee shall have sole authority to obtain advice and assistance from internal or external legal, accounting, compensation, or other consultants and advisors regarding matters within the Committee's duties and responsibilities. The Committee shall advise management when any such advisor has been retained and inform management of the cost of any such services.
7. The Committee shall annually review and reassess the adequacy of this Charter and propose any changes to the Board of Directors for approval.

#### **CONDUCT OF BUSINESS**

The Committee shall conduct its business in accordance with this Charter and any direction by the Board. The Committee shall report, at least annually, to the Board. The Committee shall annually review its own performance.

#### **MEETINGS**

The Committee shall meet as often as necessary but in no event less than annually.

#### **MINUTES**

The Committee will maintain written minutes of its meetings, which minutes will be filed with the minutes of the meetings of the Board.

**THE BOARD OF DIRECTORS OF ALTERA CORPORATION**

**AUDIT COMMITTEE CHARTER**

**PURPOSE**

The Audit Committee (the Committee) of Altera Corporation (Altera) is chartered to oversee (1) the integrity of reported financial results, (2) the quality and adequacy of disclosures, (3) the soundness of Altera's accounting policies and internal controls, (4) Altera's compliance with significant applicable financial, legal, and ethical requirements, (5) the independence and performance of Altera's independent registered public accounting firm (external auditors), and (6) communications among the external auditors, financial and senior management, and the board of directors. In performing its role, the Committee shall comply with all Securities and Exchange Commission (SEC) and National Association of Securities Dealers, Inc. (NASD) regulations covering audit committees of public corporations. Altera shall provide appropriate funding as determined by the Committee for payment of compensation to the external auditors and any advisors employed by the Committee.

While the Committee has the responsibilities and powers set forth in this charter, it is not the duty of the Committee to plan or conduct audits or to determine that Altera's financial statements are complete and accurate and are in accordance with generally accepted accounting principles. Those tasks are the responsibility of management and the external auditors. The external auditors are ultimately accountable to the board of directors through its interaction with the Committee.

**MEMBERSHIP**

The Committee shall consist of at least three members of the board of directors. Each Member (the Member), including the chairperson, shall be appointed annually by, and shall serve at the discretion of, the board of directors and shall not receive any compensation from Altera other than compensation for board or committee service. At the time of appointment, each Member shall be an independent director, as such term is defined by applicable law, the SEC and NASD, and shall be generally knowledgeable in financial, accounting, and auditing matters and shall be able to read and understand financial statements. In addition, at least one Member shall be a financial expert, as such term is defined by applicable law and the SEC.

**DUTIES AND RESPONSIBILITIES**

The specific duties and responsibilities of the Committee include the following:

1. The Committee shall have sole responsibility for hiring and firing the external auditors and shall review and approve the scope of the annual audit plan.
2. The Committee shall review and evaluate the external auditors' qualifications, independence and performance, taking into account, as appropriate, input from Company management.
3. The Committee shall obtain from the external auditors an annual written communication that is prepared in accordance with Standard No. 1 of the Independence Standards Board delineating all relationships of the external auditors with Altera as well as the nature and extent of the professional advisory services provided to Altera. The Committee shall present its conclusions on the foregoing matters to the board of directors and shall take, or recommend that the full board of directors take, appropriate action to oversee the independence of the external auditors. The Committee shall also approve, in advance, all permissible non-audit services performed by the external auditors. The Committee also shall annually review all non-audit services performed by the external auditors in order to ensure that the audit firm remains independent and objective.

4. The Committee shall direct the activities and review the findings of the external auditors. Upon completion of the annual audit, the Committee shall review the audited financial statements and management's assessment of the effectiveness of the Company's internal control over financial reporting and discuss the results of the audit with the external auditors and management. The review will focus on significant areas including, but not limited to:
  - a. 1) management's assessment of the effectiveness of internal control over financial reporting and 2) the effectiveness of internal control over financial reporting. The Committee shall also discuss with the external auditors any significant matters regarding internal controls over financial reporting that have come to their attention during the conduct of the annual audit including matters related to Altera's internal accounting and financial controls and major financial exposures, including those related to risk assessment and risk management, and recommendations and management's responses to those findings.
  - b. all critical accounting policies and practices, such as the application of Altera's revenue recognition and inventory reserve policies;
  - c. litigation reserves;
  - d. other significant commitments and contingencies; including those related to income taxes;
  - e. the effect or potential effect of off-balance sheet structures on Altera's financial statements;
  - f. any correspondence with regulators or governmental agencies and any employee complaints that raise material and credible issues regarding Altera's financial statements or accounting policies;
  - g. the accounting treatment for any significant non-routine transactions;
  - h. any new accounting, reporting, or disclosure requirements, the application of those standards to Altera's public filings, and changes in accounting policy or its application; and
  - i. other matters (i) required by applicable law, the SEC and NASD or (ii) related to the conduct of the audit, which are to be communicated to the Committee under the auditing standards adopted by the Public Company Accounting Oversight Board.
5. The Committee shall obtain timely reports from the external auditors regarding any material written communication between the external auditors and management, such as any material weakness in internal control over financial reporting and any management letter or schedule of unadjusted differences.
6. Upon completion of the annual audit, the Committee shall engage in an independent discussion with the external auditors and inquire as to:
  - a. whether there were any difficulties or disputes with management during the audit;
  - b. whether there were any accounting or disclosure issues not resolved to the satisfaction of the external auditors;

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- c. whether management cooperated with the external auditors during their examination including providing access to all requested information and whether there were any restrictions on the scope of their activities; and
  
  - d. whether there are any other matters that should be discussed with the Committee that have not been raised or covered elsewhere. The Committee shall receive a confidential assessment of the competence of Altera's financial and accounting personnel and any relevant recommendations made by the external auditors. The Committee shall resolve any disagreements between the external auditors and management regarding financial reporting.
7. The Committee shall have sole responsibility for hiring and firing the internal auditor and shall review and approve the scope of internal audit plans.

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8. Annually, the Committee shall direct independent assessments of the security and back-up and contingency provisions of Altera's computer systems and discuss management's responses to those assessments.
9. The Committee shall, unless otherwise performed by a comparable body of the board of directors, review and approve all related-party transactions, as such term is defined by the SEC and NASD.
10. The Committee shall review with Altera's legal counsel any legal matters that could have a significant impact on Altera's financial statements.
11. The Committee shall routinely review Altera's foreign exchange exposures and hedging practices, share repurchase activity, and tax planning and compliance activities.
12. The Committee shall review, and approve changes to, Altera's investment policy and performance.
13. The Committee shall review and approve the code of ethics for senior financial officers and any changes to or waivers of such code.
14. The Committee shall review at least annually the Company's legal entity structure.
15. The Committee shall establish procedures for the receipt, retention and treatment of complaints regarding accounting, internal accounting controls, or auditing matters and confidential and anonymous submission by Company employees of concerns regarding questionable accounting or auditing matters.
16. The Committee may form and delegate authority to subcommittees when appropriate.
17. The Committee shall review this charter as circumstances dictate, but no less frequently than annually, and recommend any changes to the board of directors. The Committee shall also annually evaluate its operation against this charter.
18. The Committee shall perform such other functions as assigned by law, Altera's charter or bylaws, or the board of directors.

**AUTHORITY**

The Committee has the following authority:

1. In discharging its oversight role, the Committee shall have full authority to conduct or authorize any investigation on matters within the scope of the Committee's duties and responsibilities, including matters related to the integrity of reported financial results, the soundness of Altera's accounting policies and internal control systems, and any material illegal act or conflict of interest that could jeopardize Altera's control systems or the integrity of its financial statements and disclosure.
2. The Committee shall have the sole authority to appoint, approve the compensation for, and oversee the external auditors.
- 3.

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The Committee shall have the authority to engage and approve the compensation and other retention terms for independent counsel and other advisors as necessary to perform its duties and responsibilities.

### **MEETINGS**

The Committee shall meet, either in person or via telephonic conference, on a regular basis, at least quarterly, or more frequently as circumstances require. The Committee may ask members of management or others to attend the meeting and provide pertinent information as necessary.

### **MINUTES**

The Committee shall maintain written minutes of its meetings and shall file such minutes with the minutes of the meetings of the board of directors.

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**COMMUNICATION AND REPORTING**

The Committee is expected to maintain free and open communication with the external auditors, internal audit, financial and senior management, and the board of directors. This communication shall include private executive sessions, at least annually, with each of these parties. The Committee chairperson shall also report on the Committee activities to the full board. Finally, the Committee shall provide to Altera's stockholders a report in Altera's annual proxy statement. This Committee report shall comply with the requirements of Item 306 of Regulation S-K and shall include the Committee's review and discussion of matters with management and the external auditors.

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