

LATTICE SEMICONDUCTOR CORP

Form 10-Q

November 05, 2013

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT  
OF 1934

FOR THE QUARTERLY PERIOD ENDED September 28, 2013

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT  
OF 1934

FOR THE TRANSITION PERIOD FROM \_\_\_\_\_ TO \_\_\_\_\_

Commission file number 000-18032

LATTICE SEMICONDUCTOR CORPORATION

(Exact name of Registrant as specified in its charter)

State of Delaware

93-0835214

(State or other jurisdiction of incorporation or  
organization)

(I.R.S. Employer Identification No.)

5555 N.E. Moore Court, Hillsboro, Oregon

97124-6421

(Address of principal executive offices)

(Zip Code)

(503) 268-8000

(Registrant's telephone number, including area code)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period as the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

Number of shares of common stock outstanding as of November 1, 2013

116,343,059

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Forward-Looking Statements

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Any statements about our expectations, beliefs, plans, objectives, assumptions or future events or performance are not historical facts and may be forward-looking. We use words or phrases such as “anticipates,” “believes,” “could,” “estimates,” “expects,” “intends,” “plans,” “predicts,” “projects,” “may,” “will,” “should,” “continue,” “ongoing,” “future,” “potential” and phrases to identify forward-looking statements. Examples of forward-looking statements include, but are not limited to, statements about: significant portions of our revenue being through our sell-through distributors; the impact of our global tax structure and expectations regarding taxes and tax adjustments; the Asia Pacific market being the primary source of our revenue; our plans to sell our auction rate securities; the costs and benefits of our restructuring plans; the impact of new accounting pronouncements; our expectations regarding customer preferences and product use; our expectations regarding defenses to claims against our intellectual property; our anticipated future amortization expenses; expected implementation of and funding for our stock repurchase program; our making significant future investments in research and development; our expectations regarding reinvestment of foreign funds; our beliefs concerning the adequacy of our liquidity, and our ability to meet our operating and capital requirements and obligations.

Forward-looking statements involve estimates, assumptions, risks and uncertainties that could cause actual results to differ materially from those expressed in the forward-looking statements. The key factors that could cause our actual results to differ materially from the forward-looking statements include global economic conditions and uncertainty, the concentration of our sales in the consumer and communications end markets, particularly as it relates to the concentration of our sales in the Asia Pacific region, Fujitsu's fab transition, market acceptance and demand for our new products, any disruption of our distribution channels, unexpected charges, delays or results relating to our restructuring plans, the effect of the downturn in the economy on capital markets and credit markets, the impact of competitive products and pricing, unanticipated taxation requirements, or positions of the U.S. Internal Revenue Service, unexpected impacts of recent accounting guidance and the other risks that are described herein and that are otherwise described from time to time in our filings with the Securities and Exchange Commission, including, but not limited to, the items discussed in “Risk Factors” in Item 1A of Part II of this Report. You should not unduly rely on forward-looking statements because our actual results could differ materially from those expressed in any forward-looking statements made by us. In addition, any forward-looking statement applies only as of the date on which it is made. We do not plan to, and undertake no obligation to, update any forward-looking statements to reflect events or circumstances that occur after the date on which such statements are made or to reflect the occurrence of unanticipated events.

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## PART I. FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

## LATTICE SEMICONDUCTOR CORPORATION

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)

(In thousands, except per share data)

(unaudited)

|   | Three Months Ended    |                       | Nine Months Ended     |                       |
|---|-----------------------|-----------------------|-----------------------|-----------------------|
|   | September 28,<br>2013 | September 29,<br>2012 | September 28,<br>2013 | September 29,<br>2012 |
| Revenue   | \$87,154              | \$70,889              | \$243,006             | \$213,381             |
| Costs and expenses:   |                       |                       |                       |                       |
| Cost of products sold   | 40,778                | 32,341                | 113,365               | 98,297                |
| Research and development  | 20,254                | 20,446                | 58,635                | 58,955                |
| Selling, general and administrative   | 16,385                | 17,720                | 49,955                | 55,048                |
| Acquisition related charges, including amortization<br>of intangible assets           | 737                   | 729                   | 2,223                 | 3,418                 |
| Restructuring charges   | 85                    | —                     | 257                   | 643                   |
|   | 78,239                | 71,236                | 224,435               | 216,361               |
| Income (loss) from operations   | 8,915                 | (347                  | ) 18,571              | (2,980                |
| Other income, net   | 346                   | 88                    | 240                   | 846                   |
| Income (loss) before income taxes   | 9,261                 | (259                  | ) 18,811              | (2,134                |
| Provision for income taxes  | 417                   | 1,916                 | 3,037                 | 20,297                |
| Net Income (loss)   | \$8,844               | \$(2,175              | ) \$15,774            | \$(22,431             |
| Net Income (loss) per share:  |                       |                       |                       |                       |
| Basic   | \$0.08                | \$(0.02               | ) \$0.14              | \$(0.19               |
| Diluted   | \$0.08                | \$(0.02               | ) \$0.13              | \$(0.19               |
| Shares used in per share calculations:  |                       |                       |                       |                       |
| Basic   | 116,055               | 116,785               | 115,730               | 117,612               |
| Diluted   | 117,349               | 116,785               | 117,093               | 117,612               |
| Comprehensive Income (loss):  |                       |                       |                       |                       |
| Net Income (loss)   | \$8,844               | \$(2,175              | ) \$15,774            | \$(22,431             |
| Other comprehensive income:   |                       |                       |                       |                       |
| Unrealized gain (loss) related to marketable<br>securities, net                       | 221                   | 39                    | (11                   | ) 17                  |
| Less: reclassification adjustment for losses (gains)<br>included in other income, net | 1                     | —                     | 303                   | (78                   |
| Translation adjustment  | 225                   | (15                   | ) (205                | ) 244                 |
| Comprehensive Income (loss)   | \$9,291               | \$(2,151              | ) \$15,861            | \$(22,248             |

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements.



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CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share and par value data)

(unaudited)

|   | September 28,<br>2013 | December 29,<br>2012 |
|---|-----------------------|----------------------|
| Assets  |                       |                      |
| Current assets:   |                       |                      |
| Cash and cash equivalents   | \$120,770             | \$118,536            |
| Short-term marketable securities  | 90,002                | 64,865               |
| Accounts receivable, net  | 52,991                | 46,947               |
| Inventories   | 42,295                | 44,194               |
| Prepaid expenses and other current assets   | 14,631                | 12,527               |
| Total current assets  | 320,689               | 287,069              |
| Property and equipment, less accumulated depreciation   | 42,345                | 40,384               |
| Long-term marketable securities   | 4,717                 | 4,717                |
| Other long-term assets  | 7,199                 | 6,854                |
| Intangible assets, net of amortization  | 13,220                | 15,430               |
| Goodwill  | 44,808                | 44,808               |
| Deferred income taxes   | 13,746                | 15,357               |
| Total assets  | \$446,724             | \$414,619            |
| Liabilities and Stockholders' Equity  |                       |                      |
| Current liabilities:  |                       |                      |
| Accounts payable and accrued expenses   | \$33,318              | \$36,391             |
| Accrued payroll obligations   | 11,106                | 6,149                |
| Deferred income and allowances on sales to sell-through distributors  | 17,587                | 10,553               |
| Total current liabilities   | 62,011                | 53,093               |
| Long-term liabilities   | 5,011                 | 3,976                |
| Total liabilities   | 67,022                | 57,069               |
| Commitments and contingencies   |                       |                      |
| Stockholders' equity:   |                       |                      |
| Preferred stock, \$.01 par value, 10,000,000 shares authorized, none issued and outstanding                             | —                     | —                    |
| Common stock, \$.01 par value, 300,000,000 shares authorized, 116,281,446 and 115,500,000 shares issued and outstanding | 1,163                 | 1,155                |
| Paid-in capital   | 627,756               | 621,170              |
| Accumulated other comprehensive loss  | (477                  | ) (261               |
| Accumulated deficit   | (248,740              | ) (264,514           |
| Total stockholders' equity  | 379,702               | 357,550              |
| Total liabilities and stockholders' equity  | \$446,724             | \$414,619            |
| See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements.  |                       |                      |

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(unaudited)

|   | Nine Months Ended     |                       |
|---|-----------------------|-----------------------|
|   | September 28,<br>2013 | September 29,<br>2012 |
| Cash flows from operating activities:   |                       |                       |
| Net Income (loss)   | \$15,774              | \$(22,431)            |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:                      |                       |                       |
| Depreciation and amortization   | 15,173                | 16,162                |
| Change in deferred income tax provision   | 1,886                 | 19,307                |
| Gain on sale or maturity of marketable securities, net  | —                     | (393)                 |
| Stock-based compensation  | 6,985                 | 5,753                 |
| Changes in assets and liabilities:  |                       |                       |
| Accounts receivable, net  | (6,044)               | (19,027)              |
| Inventories   | 1,899                 | (151)                 |
| Prepaid expenses and other assets   | (2,177)               | (351)                 |
| Accounts payable and accrued expenses (includes restructuring)  | (1,354)               | 1,763                 |
| Accrued payroll obligations   | 4,957                 | (1,635)               |
| Deferred income and allowances on sales to sell-through distributors  | 7,034                 | 422                   |
| Net cash provided by (used in) operating activities   | 44,133                | (581)                 |
| Cash flows from investing activities:   |                       |                       |
| Proceeds from sales or maturities of marketable securities  | 39,176                | 47,404                |
| Purchase of marketable securities   | (64,303)              | (24,049)              |
| Capital expenditures  | (10,237)              | (11,230)              |
| Other investing activities, primarily time based software licenses  | (5,939)               | (4,838)               |
| Net cash (used in) provided by investing activities   | (41,303)              | 7,287                 |
| Cash flows from financing activities:   |                       |                       |
| Net share settlement upon issuance of RSUs  | (581)                 | (735)                 |
| Purchase of treasury stock  | (2,452)               | (12,360)              |
| Net proceeds from issuance of common stock  | 2,642                 | 2,970                 |
| Net cash used in financing activities   | (391)                 | (10,125)              |
| Effect of exchange rate change on cash  | (205)                 | 246                   |
| Net increase (decrease) in cash and cash equivalents  | 2,234                 | (3,173)               |
| Beginning cash and cash equivalents   | 118,536               | 141,423               |
| Ending cash and cash equivalents  | \$120,770             | \$138,250             |
| Supplemental disclosures of non-cash investing and financing activities:  |                       |                       |
| Unrealized (loss) gain related to marketable securities, net, included in Accumulated other comprehensive income (loss) | \$(11)                | \$17                  |
| Income taxes paid, net of refunds   | \$1,081               | \$736                 |
| Distribution of deferred compensation from trust assets   | \$53                  | \$196                 |
| See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements.  |                       |                       |

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LATTICE SEMICONDUCTOR CORPORATION  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

Note 1 - Basis of Presentation and Significant Accounting Policies:

The accompanying Condensed Consolidated Financial Statements are unaudited and have been prepared by Lattice Semiconductor Corporation ("Lattice," the "Company," "we," "us" or "our") pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC") and in our opinion include all adjustments, consisting of normal recurring adjustments, necessary for the fair statement of results for the interim periods. Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles ("U.S. GAAP") have been condensed or omitted pursuant to such rules and regulations. These Condensed Consolidated Financial Statements should be read in conjunction with our audited financial statements and notes thereto included in our Annual Report on Form 10-K for the fiscal year ended December 29, 2012.

We report based on a 52 or 53-week fiscal year ending on the Saturday closest to December 31. Our third quarter of fiscal 2013 and third quarter of fiscal 2012 ended on September 28, 2013 and September 29, 2012, respectively. All references to quarterly, three or nine months ended financial results are references to the results for the relevant fiscal period.

Principles of Consolidation

The accompanying Condensed Consolidated Financial Statements include the accounts of Lattice and its subsidiaries, all of which are wholly-owned, after the elimination of all intercompany balances and transactions. Certain balances in prior fiscal years have been reclassified to conform to the presentation adopted in the current year.

Cash Equivalents and Marketable Securities

We consider all investments that are readily convertible into cash and have original maturities of three months or less, to be cash equivalents. Cash equivalents consist primarily of highly liquid investments in time deposits or money market accounts and are carried at cost. We account for marketable securities as available for sale with unrealized gains or losses recorded to Accumulated other comprehensive income (loss), unless losses are considered other-than-temporary, in which case, losses are charged to the Condensed Consolidated Statements of Operations and Comprehensive Income (Loss).

Fair Value of Financial Instruments

We invest in various financial instruments including corporate and government bonds, notes, commercial paper and auction rate securities. The Company values these instruments at their fair value and monitors their portfolio for impairment on a periodic basis. In the event that the carrying value of an investment exceeds its fair value and the decline in value is determined to be other than temporary, the Company records an impairment charge and establishes a new carrying value. We assess other-than-temporary impairment of marketable securities in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 820, "Fair Value Measurements and Disclosures." The framework under the provisions of ASC 820 establishes three levels of inputs that may be used to measure fair value. Each level of input has different levels of subjectivity and difficulty involved in determining fair value.

Level 1 instruments are characterized generally by quoted prices for identical assets or liabilities in active markets. Therefore, determining fair value for Level 1 instruments generally does not require significant management



judgment, and the estimation is not difficult.

Level 2 instruments include inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices for identical instruments in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 instruments include unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Our auction rate securities are classified as Level 3 instruments. Management uses a combination of the market and income approach to derive the fair value of auction rate securities, which includes third party valuation results, investment broker provided market information and available information on the credit quality of the underlying collateral. As a result, the determination of fair value for Level 3 instruments requires significant management judgment and subjectivity. Our Level 3 instruments are classified as Long-term marketable securities on our Condensed

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Consolidated Balance Sheets and are entirely made up of auction rate securities that consist of student loan asset-backed notes. Such loans are insured by the federal government or guaranteed by the Federal Family Educational Loan Program ("FFELP"). Fair value measurement may be sensitive to various unobservable inputs such as the ability of students to repay their loans, or change in the provision of government guarantees policy toward guaranteeing loan repayment. If students are unable to pay back their loans or the government changes its policy, our investments may be further impaired.

### Foreign Exchange and Translation of Foreign Currencies

We have international subsidiary and branch operations. In addition, a portion of our silicon wafer and other purchases are denominated in Japanese yen and we bill certain Japanese customers in yen. Gains or losses from foreign exchange rate fluctuations on balances denominated in foreign currencies are reflected in Other income, net. Realized and unrealized gains or losses on foreign currency transactions were not significant for the periods presented. We translate accounts denominated in foreign currencies in accordance with ASC 830, "Foreign Currency Matters," using the current rate method under which asset and liability accounts are translated at the current rate, while stockholders' equity accounts are translated at the appropriate historical rates, and revenue and expense accounts are translated at average monthly exchange rates. Translation adjustments related to the consolidation of foreign subsidiary financial statements are reflected in Accumulated other comprehensive income (loss) in Stockholders' equity.

### Derivative Financial Instruments

At September 28, 2013 and December 29, 2012, we had open foreign exchange contracts of 120,000,000 JPY and 150,000,000 JPY, respectively. The contracts outstanding at September 28, 2013 and December 29, 2012 were settled in October 2013 and January 2013, respectively. Although such hedges mitigate our foreign currency exchange rate exposure from an economic perspective, they were not designated as "effective" hedges for accounting purposes and are adjusted to fair value through earnings, with an impact of less than \$0.1 million for the periods reported. We do not hold or issue derivative financial instruments for trading or speculative purposes.

### Concentration Risk

Potential exposure to concentration risk consists primarily of cash and cash equivalents, marketable securities, trade receivables and supply of wafers for our new products. We place our investments primarily through three financial institutions and mitigate the concentration of credit risk by limiting the maximum portion of the investment portfolio which may be invested in any one instrument. The Company's investment policy defines approved credit ratings for investment securities. Investments on-hand consisted primarily of money market instruments, "AA" or better corporate notes and bonds and commercial paper, and U.S. government agency obligations. See Note 4 for a discussion of the liquidity attributes of our marketable securities.

Concentration of credit risk with respect to trade receivables is mitigated by a geographically diverse customer base and our credit and collection process. Accounts receivable do not bear interest, and are shown net of allowances for doubtful accounts of \$0.9 million and \$1.1 million at September 28, 2013 and December 29, 2012, respectively. We perform credit evaluations for essentially all customers and secure transactions with letters of credit or advance payments where appropriate. We regularly review our allowance for doubtful accounts and the aging of our accounts receivable. Write-offs for uncollected trade receivables have not been significant to date.

We rely on a limited number of foundries for our wafer purchases including: Fujitsu Limited, Seiko Epson Corporation, Taiwan Semiconductor Manufacturing Company, Ltd, United Microelectronics Corporation, and GLOBALFOUNDRIES.

## Revenue Recognition and Deferred Income

We sell our products directly to end customers or through a network of independent manufacturers' representatives and indirectly through a network of independent sell-in and sell-through distributors. Distributors provide periodic data regarding the product, price, quantity, and end customer when products are resold, as well as the quantities of our products they still have in stock.

Revenue from sales to original equipment manufacturers ("OEMs") or sell-in distributors is recognized upon shipment. Revenue from sales by our sell-through distributors is recognized at the time of reported resale. Under both types of revenue recognition, persuasive evidence of an arrangement exists, the price is fixed or determinable, title has transferred, collection of

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resulting receivables is reasonably assured, and there are no remaining customer acceptance requirements and no remaining significant performance obligations.

Orders from our sell-through distributors are initially recorded at published list prices; however, for a majority of our sales, the final selling price is determined at the time of resale and in accordance with a distributor price agreement. In certain circumstances, we allow sell-through distributors to return unsold products. At times, we protect our sell-through distributors against reductions in published list prices. For these reasons, we do not recognize revenue until products are resold by sell-through distributors to an end customer.

For sell-through distributors, at the time of shipment to distributors, we (a) record Accounts receivable, net at published list price since there is a legally enforceable obligation from the distributor to pay us currently for product delivered, (b) relieve inventory for the carrying value of goods shipped since legal title has passed to the distributor, and (c) record deferred revenue and deferred cost of sales in Deferred income and allowances on sales to sell-through distributors in the liability section of our Condensed Consolidated Balance Sheets. The final price is set at the time of resale and is determined in accordance with a distributor price agreement. Revenue and cost of products sold to sell-through distributors are deferred until either the product is resold by the distributor or, in certain cases, return privileges terminate, at which time Revenue and Cost of products sold are reflected in Net Income (loss), and Accounts receivable, net are adjusted to reflect the final selling price.

The components of Deferred income and allowances on sales to sell-through distributors are presented in the following table (in thousands):

|   | September 28,<br>2013 | December 29,<br>2012 |
|---|-----------------------|----------------------|
| Inventory valued at published list price and held by sell-through distributors with right of return | \$51,891              | \$38,623             |
| Allowance for distributor advances  | (27,880 )             | (22,450 )            |
| Deferred cost of sales related to inventory held by sell-through distributors                       | (6,424 )              | (5,620 )             |
| Total Deferred income and allowances on sales to sell-through distributors                          | \$17,587              | \$10,553             |

A significant portion of our year-to-date revenue in fiscal 2013 has been from sell-through distributors. Resale of products by sell-through distributors as a percentage of total revenue was 41% and 44% for the three and nine months ended September 28, 2013, respectively, and 56% and 55% for the three and nine months ended September 29, 2012, respectively.

We must use estimates and apply judgment to reconcile sell-through distributors' reported inventories to their activities. Errors in our estimates or judgments could result in inaccurate reporting of our Revenue, Cost of products sold, Deferred income and allowances on sales to sell-through distributors, and Net Income (loss).

## Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts and classification of assets, such as marketable securities, accounts receivable, inventory, auction rate securities, goodwill (including the assessment of reporting unit), intangible assets, current and deferred income taxes, accrued liabilities (including restructuring charges and bonus arrangements), deferred income and allowances on sales to sell-through distributors, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the fiscal periods presented. Actual results could differ from those estimates.

## Note 2 - New Accounting Pronouncements:

In June 2013, the Emerging Issues Task Force reached consensus on ASU 2013-11 Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists. The consensus requires companies to present the unrecognized tax benefit as a reduction of the Deferred tax asset for a Net Operating Loss ("NOL") or similar tax loss, or tax credit carryforward rather than as a liability when the uncertain tax position would reduce the NOL or other carryforward under the tax law. We early adopted this requirement in June 2013 with retrospective application as permitted by the standard. Amounts presented in prior periods have been reclassified to conform. This resulted in both long-term taxes payable and deferred tax assets declining by approximately \$14 million for all periods presented.

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## Note 3 - Net income (loss) Per Share:

We compute basic net income (loss) per share by dividing net income (loss) available to common stockholders by the weighted average number of common shares outstanding during the period. To determine diluted share count, we apply the treasury stock method to determine the dilutive effect of outstanding stock option shares, restricted stock units ("RSUs"), and Employee Stock Purchase Plan ("ESPP") shares. Our application of the treasury stock method includes, as assumed proceeds, the average unamortized stock-based compensation expense for the period and the impact of the pro forma deferred tax benefit or cost associated with stock-based compensation expense.

A reconciliation of basic and diluted Net income (loss) per share is presented below (in thousands, except per share data):

|  | Three Months Ended    |                       | Nine Months Ended     |                       |
|--|-----------------------|-----------------------|-----------------------|-----------------------|
|  | September 28,<br>2013 | September 29,<br>2012 | September 28,<br>2013 | September 29,<br>2012 |
| Basic and diluted Net Income (loss)                    | \$8,844               | \$(2,175 )            | \$15,774              | \$(22,431 )           |
| Shares used in basic Net Income (loss) per share       | 116,055               | 116,785               | 115,730               | 117,612               |
| Dilutive effect of stock options, RSUs and ESPP shares | 1,294                 | —                     | 1,363                 | —                     |
| Shares used in diluted Net Income (loss) per share     | 117,349               | 116,785               | 117,093               | 117,612               |
| Basic Net Income (loss) per share                      | \$0.08                | \$(0.02 )             | \$0.14                | \$(0.19 )             |
| Diluted Net Income (loss) per share                    | \$0.08                | \$(0.02 )             | \$0.13                | \$(0.19 )             |

The computation of diluted Net income per share for the three and nine months ended September 28, 2013, includes the effects of stock options, RSUs and ESPP shares aggregating approximately 1.3 million shares and 1.4 million shares, respectively, as they are dilutive, and excludes the effects of stock options, RSUs and ESPP shares aggregating approximately 8.6 million shares and 8.5 million shares, respectively, as they are antidilutive. The computation of diluted Net loss per share for both the three and nine months ended September 29, 2012 excludes the effects of stock options, RSUs and ESPP shares aggregating approximately 11.3 million shares, as they are antidilutive. Stock options, RSUs and ESPP shares are considered antidilutive when the aggregate of exercise price, unrecognized stock-based compensation expense and excess tax benefit are greater than the average market price for our common stock during the period or when the Company is in a net loss position, as the effects would reduce the loss per share. Stock options and RSUs that are dilutive in the third quarter and first nine months of fiscal 2013 could become antidilutive in the future.

## Note 4 - Marketable Securities:

The following table summarizes the contractual maturities of our marketable securities (at fair value and in thousands):

|                                    | September 28,<br>2013 | December 29,<br>2012 |
|------------------------------------|-----------------------|----------------------|
| Short-term marketable securities:  |                       |                      |
| Maturities of less than five years | \$90,002              | \$64,865             |
| Long-term marketable securities:   |                       |                      |
| Maturities of more than ten years  | 4,717                 | 4,717                |
| Total marketable securities        | \$94,719              | \$69,582             |

The following table summarizes the composition of our marketable securities (at fair value and in thousands):

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|   | September 28,<br>2013 | December 29,<br>2012 |
|---|-----------------------|----------------------|
| Short-term marketable securities:                             |                       |                      |
| Corporate and government bonds and notes and commercial paper | \$90,002              | \$64,865             |
| Long-term marketable securities:                              |                       |                      |
| Federally-insured or FFELP guaranteed student loans           | 4,717                 | 4,717                |
| Total marketable securities                                   | \$94,719              | \$69,582             |

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The following table summarizes the composition of our auction rate securities (in thousands):

|  | September 28, 2013 |            |                         | December 29, 2012 |            |                         |
|--|--------------------|------------|-------------------------|-------------------|------------|-------------------------|
|  | Par Value          | Fair Value | S&P<br>Credit<br>rating | Par Value         | Fair Value | S&P<br>Credit<br>rating |
| Long-term marketable securities:                       |                    |            |                         |                   |            |                         |
| Federally-insured or FFELP<br>guaranteed student loans | \$5,700            | \$4,717    | AA+                     | \$5,700           | \$4,717    | AA+                     |
| Total auction rate securities                          | \$5,700            | \$4,717    |                         | \$5,700           | \$4,717    |                         |

At September 28, 2013, due to continued multiple failed auctions and a determination of illiquidity, the auction rate securities held by us are classified as Long-term marketable securities. These auction rate securities are exposed to risks associated with student loan asset-backed notes. Such loans are insured by the federal government or guaranteed by the FFELP. We intend to sell our auction rate securities as markets for these securities resume or reasonable offers become available.

Note 5 - Fair Value of Financial Instruments (in thousands):

|  | Fair value measurements as of<br>September 28, 2013 |          |         |         | Fair value measurements as of<br>December 29, 2012 |          |         |         |
|--|---|----------|---------|---------|--|----------|---------|---------|
|  | Total   | Level 1  | Level 2 | Level 3 | Total  | Level 1  | Level 2 | Level 3 |
| Short-term marketable securities               | \$90,002  | \$90,002 | \$—     | \$—     | \$64,865   | \$64,865 | \$—     | \$—     |
| Long-term marketable securities                | 4,717   | —        | —       | 4,717   | 4,717  | —        | —       | 4,717   |
| Foreign currency forward<br>exchange contracts | (13 )   | —        | (13 )   | —       | (5 )   | —        | (5 )    | —       |
| Total fair value of financial<br>instruments   | \$94,706  | \$90,002 | \$(13 ) | \$4,717 | \$69,577   | \$64,865 | \$(5 )  | \$4,717 |

We invest in various financial instruments including corporate and government bonds and notes, commercial paper and auction rate securities. In addition, we enter into foreign currency forward exchange contracts to mitigate our foreign currency exchange rate exposure. We carry these instruments at their fair value in accordance with ASC 820. The framework under the provisions of ASC 820 establishes three levels of inputs that may be used to measure fair value. Each level of input has different levels of subjectivity and difficulty involved in determining fair value.

Level 1 instruments generally represent quoted prices for identical assets or liabilities in active markets. Therefore, determining fair value for Level 1 instruments generally does not require significant management judgment, and the estimation is not difficult. Our Level 1 instruments consist of federal agency, corporate notes and bonds, and commercial paper that are traded in active markets and are classified as Short-term marketable securities on our Condensed Consolidated Balance Sheets.

Level 2 instruments include inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices for identical instruments in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 instruments include unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Our auction rate securities are classified as Level 3 instruments. Management uses a combination of the market and income approach to derive the fair value of auction rate securities, which include third party valuation results, investment broker provided market information and available information



on the credit quality of the underlying collateral. As a result, the determination of fair value for Level 3 instruments requires significant management judgment and subjectivity. Our Level 3 instruments are classified as Long-term marketable securities on our Condensed Consolidated Balance Sheets and are entirely made up of auction rate securities that consist of student loan asset-backed notes. Such loans are insured by the federal government or guaranteed by the FFELP. Fair value measurement may be sensitive to various unobservable inputs such as the ability of students to repay their loans, or change in the provision of government guarantees policy toward guaranteeing loan repayment. If students are unable to pay back their loans or the government changes its policy, our investments may be further impaired.

There were no transfers between Levels 1 and 2 during the first nine months ended fiscal 2013 or 2012. There were no transfers into or out of Level 3 during the first nine months ended fiscal 2013 or 2012.

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During the nine months ended September 28, 2013 and September 29, 2012, the following changes occurred in our Level 3 instruments (in thousands):

|   | Nine Months Ended     |                       |
|---|-----------------------|-----------------------|
|   | September 28,<br>2013 | September 29,<br>2012 |
| Beginning fair value of Long-term marketable securities | \$4,717               | \$6,946               |
| Fair value of securities sold or redeemed               | —                     | (2,285 )              |
| Ending fair value of Long-term marketable securities    | \$4,717               | \$4,661               |

In accordance with ASC 320, "Investments-Debt and Equity Securities," we recorded an unrealized loss of less than \$0.1 million during the nine months ended September 28, 2013, and an unrealized gain of less than \$0.1 million during the nine months ended September 29, 2012, on certain Short-term marketable securities (Level 1 instruments), which has been recorded in Accumulated other comprehensive income (loss). Future fluctuations in fair value related to these instruments that the Company deems to be temporary, including any recoveries of previous write-downs, would be recorded to Accumulated other comprehensive loss. If we were to determine in the future that any further decline in fair value is other-than-temporary, we would record an impairment charge, which could have a materially detrimental impact on our operating results. If we were to liquidate our position in these securities, it is likely that the amount of any future realized gain or loss would be different from the unrealized gain or loss reported in Accumulated other comprehensive income (loss) or the previously reported other-than-temporary impairment charge.

Note 6 - Inventories (in thousands):

|                   | September 28,<br>2013 | December 29,<br>2012 |
|-------------------|-----------------------|----------------------|
| Work in progress  | \$26,081              | \$27,915             |
| Finished goods    | 16,214                | 16,279               |
| Total inventories | \$42,295              | \$44,194             |

Note 7 - Business Combinations and Goodwill:

In December 2011, we acquired SiliconBlue Technologies Ltd. ("SiliconBlue") for \$63.2 million in cash. Of the total purchase price, \$43.9 million was allocated to goodwill, \$18.5 million was allocated to intangible assets, and the remaining to net tangible assets acquired. The goodwill and identifiable intangible assets are not deductible for tax purposes. SiliconBlue was consolidated into our financial statements beginning in December 2011.

Inventories were recorded at their estimated fair value ("step-up"), which represented an amount equivalent to estimated selling prices less fulfillment costs and a normative selling profit. The step-up of \$0.3 million was charged to Acquisition related charges during the six months ended June 30, 2012, approximating the estimated inventory turnover for this particular product.

In July 2011, we acquired substantially all of the assets of Rise Technology Development Limited ("Rise"), for \$1.0 million in cash. Of the purchase price, \$0.9 million was allocated to goodwill and the remaining to net tangible assets acquired.

No impairment charges relating to goodwill and intangible assets were recorded for the first nine months of 2013 or 2012.

Note 8 - Intangible Assets and Acquisition Related Charges:

In connection with our acquisition of SiliconBlue in December 2011, we recorded identifiable intangible assets related to developed technology and customer relationships based on guidance for determining fair value under the provisions of ASC 820. The following table summarizes the details of our total purchased intangible assets (in thousands):

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|                        | Weighted Average<br>Amortization Period<br>(in years) | Gross    | Accumulated<br>Amortization | Intangible assets, net of<br>amortization September<br>28, 2013 |
|------------------------|---|----------|-----------------------------|---|
| Developed technology   | 7   | \$10,700 | \$(2,739                    | ) \$7,961   |
| Customer relationships | 5.5   | 7,800    | (2,541                      | ) 5,259   |
| Total                  | 6.3   | \$18,500 | \$(5,280                    | ) \$13,220  |

Amortization expense associated with these intangible assets is reported as Acquisition related charges, including the amortization of intangible assets in the Condensed Consolidated Statements of Operations and Comprehensive Income (Loss) and amounted to \$0.7 million in each of the third quarters of the fiscal years ended 2013 and 2012. We expect amortization expense related to these intangible assets to approximate \$2.9 million each year in fiscal years 2013 - 2016, \$2.2 million in 2017, and \$1.5 million in 2018.

Acquisition related charges, including amortization of intangible assets in the Condensed Consolidated Statements of Operations and Comprehensive Income (Loss) also include severance and professional fees related to the acquisition, as well as the amortization of the stepped-up value of inventory, collectively amounting to \$0.2 million in the third quarter of the fiscal year 2012.

## Note 9 - Changes in Stockholders' Equity and Accumulated Other Comprehensive Loss (in thousands):

|  | Common<br>stock | Paid-in<br>capital | Treasury<br>stock | Accumu-<br>lated<br>deficit | Accumu-<br>lated<br>other<br>compre-<br>hensive<br>loss | Total       |   |
|--|-----------------|--------------------|-------------------|-----------------------------|---|-------------|---|
| Balances, December 29, 2012  | \$1,155         | \$621,170          | \$—               | \$(264,514                  | ) \$(261  | ) \$357,550 |   |
| Net Income for the nine months<br>ended September 28, 2013   | —               | —                  | —                 | 15,774                      | —   | 15,774      |   |
| Unrealized loss related to<br>marketable securities, net   | —               | —                  | —                 | —                           | (11   | ) (11       | ) |
| Translation adjustments  | —               | —                  | —                 | —                           | (205  | ) (205      | ) |
| Common stock issued in connection<br>with the exercise of stock options,<br>ESPP and vested RSUs (net of<br>taxes) | 14              | 2,047              | —                 | —                           | —   | 2,061       |   |
| Stock repurchase   | —               | —                  | (2,452            | ) —                         | —   | (2,452      | ) |
| Retirement of treasury stock   | (6              | ) (2,446           | ) 2,452           | —                           | —   | —           |   |
| Stock-based compensation expense<br>related to stock options, ESPP and<br>RSUs                                     | —               | 6,985              | —                 | —                           | —   | 6,985       |   |
| Balances, September 28, 2013   | \$1,163         | \$627,756          | \$—               | \$(248,740                  | ) \$(477  | ) \$379,702 |   |

On February 24, 2012, our Board of Directors approved a stock repurchase program pursuant to which up to \$20.0 million of outstanding common stock may be repurchased from time to time. The duration of the repurchase program was twelve months. The 2012 program was completed during the first quarter of fiscal 2013, with the repurchase of approximately 0.6 million shares for \$2.5 million.

On February 27, 2013, our Board of Directors approved a stock repurchase program pursuant to which up to \$20.0 million of outstanding common stock may be repurchased from time to time. The duration of the repurchase program is twelve months. No shares were repurchased under this program during the nine months ended September 28, 2013. We expect that all future repurchases will be open market transactions funded from available working capital.

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Note 10 - Income Taxes:

For the three months ended September 28, 2013 and September 29, 2012, we recorded an income tax provision of approximately \$0.4 million and \$1.9 million, respectively. For the nine months ended September 28, 2013 and September 29, 2012, we recorded an income tax provision of approximately \$3.0 million and \$20.3 million, respectively. The income tax provision for the three and nine months ended September 28, 2013 represents tax at the federal, state and foreign statutory tax rates adjusted for non-deductible stock compensation, withholding taxes, changes in uncertain tax positions as well as other non-deductible items in foreign jurisdictions. The difference between the U.S. federal statutory tax rate of 35% and our effective tax rate is primarily due to income earned in lower tax rate jurisdictions, for which no U.S. income tax has been provided, as we intend to permanently reinvest these earnings outside of the United States.

On December 31, 2011, we began to implement a global tax structure to more effectively align our corporate structure with the geographic business operations including responsibility for sales and manufacturing activities. As part of this tax restructuring, we created new and realigned existing legal entities, completed intercompany sales of rights to intellectual property, inventory and fixed assets across different tax jurisdictions, and implemented cost-sharing and intellectual property licensing and royalty agreements between our U.S. and foreign entities.

The global tax structure was completed during the first quarter of 2012 upon the intercompany sale of inventory and fixed assets. During 2012, this inventory was sold to end customers in the ordinary course of business resulting in income before taxes in the United States and a loss before taxes in certain foreign jurisdictions. Because these foreign jurisdictions have 0% income tax rates, we received no tax benefit associated with the losses resulting in a significant foreign rate differential. Taxes were applied to the U.S. income resulting from the intercompany sale based on U.S. statutory rates, offset by deferred tax assets. This resulted in an increase to the effective tax rate and a net income tax provision of \$1.9 million and \$20.3 million during the three and nine months ended September 29, 2012, respectively.

We are subject to federal income tax as well as income tax of multiple state and foreign jurisdictions. We are no longer subject to federal, state and local, or foreign income tax examinations for years before 2010, 2008 and 2007, respectively. However, "NOL" and credit carryforwards from all years are subject to examination and adjustments for at least three years following the year in which the attributes are used. Our 2011 federal income tax return is currently under examination. We are not under examination in any other tax jurisdictions.

We believe that it is reasonably possible that \$0.3 million of unrecognized tax benefits and \$0.3 million of associated interest and penalties could be recognized during the next twelve months. The \$0.6 million potential change would represent a decrease in unrecognized tax benefits, comprised of items related to state income tax credits claimed and foreign tax filings for years that will no longer be subject to examination under expiring statutes of limitations.

We have federal net operating loss carryforwards that expire at various dates between 2023 and 2032. We have state net operating loss carryforwards that expire at various dates from 2013 through 2032. We also have federal and state credit carryforwards, some of which do not expire, with the remainder expiring at various dates from 2013 through 2032.

We are paying foreign income taxes, which are reflected in the Provision for income taxes in our Condensed Consolidated Statements of Operations and Comprehensive Income (Loss) and are primarily related to the cost of operating offshore subsidiaries. We are not currently paying federal income taxes and do not expect to pay such taxes until our tax net operating loss and credit carryforwards are fully utilized. We expect to pay a nominal amount of state income tax. We accrue interest and penalties related to uncertain tax positions in the Provision for income taxes.

The American Taxpayer Relief Act of 2012, which reinstated the U.S. federal research and development tax credit retroactively from January 1, 2012 through December 31, 2013, was enacted into law during the three months ended March 30, 2013. The tax benefit resulting from the reinstatement of the federal research and development tax credit was offset by a valuation allowance and therefore did not impact our annual effective tax rate.

Note 11 - Restructuring:

In October 2012, our Board of Directors adopted the "2012 restructuring plan." In connection with this restructuring plan, we reduced our headcount by approximately 110 employees and eliminated certain sites, including sites in Pennsylvania and Illinois. In connection with this action, we recorded restructuring charges of less than \$0.1 million in the third quarter of fiscal 2013. The 2012 restructuring plan was substantially completed during the first quarter of fiscal 2013.

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In 2011, our Board of Directors adopted the "2011 restructuring plan" to more efficiently implement our product development cycle and streamline supply chain activities. The 2011 restructuring plan was completed during the second quarter of 2012.

The following table displays the activity related to the restructuring plans described above (in thousands):

|  | Severance and<br>related | Lease<br>termination | Other  | Total    |
|--|--------------------------|----------------------|--------|----------|
| Balance at December 31, 2011             | \$1,543                  | \$26                 | \$—    | \$1,569  |
| Restructuring Charges                    | 296                      | —                    | 465    | 761      |
| Cash Payments                            | (1,735                   | ) (12                | ) (465 | ) (2,212 |
| Adjustments to prior restructuring costs | (104                     | ) (14                | ) —    | ) (118   |
| Balance at September 29, 2012            | \$—                      | \$—                  | \$—    | \$—      |
| Balance at December 29, 2012             | \$2,373                  | \$793                | \$258  | \$3,424  |
| Restructuring Charges                    | 105                      | 224                  | 245    | 574      |
| Cash Payments                            | (2,312                   | ) (571               | ) (220 | ) (3,103 |
| Adjustments to prior restructuring costs | (150                     | ) (99                | ) (68  | ) (317   |
| Balance at September 28, 2013            | \$16                     | \$347                | \$215  | \$578    |

We cannot be certain as to the actual amount of any remaining restructuring charges or the timing of their recognition for financial reporting purposes.

## Note 12 - Stock-Based Compensation:

Total stock-based compensation expense included in our Condensed Consolidated Statements of Operations and Comprehensive Income (Loss) was as follows (in thousands):

| Line item:                          | Three Months Ended    |                       | Nine Months Ended     |                       |
|-------------------------------------|-----------------------|-----------------------|-----------------------|-----------------------|
|                                     | September 28,<br>2013 | September 29,<br>2012 | September 28,<br>2013 | September 29,<br>2012 |
| Cost of products sold               | \$171                 | \$139                 | \$460                 | \$388                 |
| Research and development            | 1,058                 | 834                   | 2,871                 | 2,273                 |
| Selling, general and administrative | 1,333                 | 1,102                 | 3,654                 | 3,092                 |
| Total stock-based compensation      | \$2,562               | \$2,075               | \$6,985               | \$5,753               |

## Note 13 - Legal Matters:

On June 11, 2007, a patent infringement lawsuit was filed by Lizy K. John ("John") against us in the U.S. District Court for the Eastern District of Texas, Marshall Division. In the complaint, John seeks an injunction, unspecified damages, and attorneys' fees and expenses. We filed a request for re-examination of the patent by the U.S. Patent and Trademark Office ("PTO"), which was granted by the PTO. The litigation was stayed pending the results of the re-examination. After the re-examination concluded, the stay was lifted on January 1, 2012, and the lawsuit was transferred by consent of the parties to the Northern District of California. We also filed a request for a second re-examination of the patent, which was granted and is still pending. Discovery is open and proceeding. Trial is scheduled for December 8, 2014. At this stage of the proceedings, we do not have an estimate of the likelihood or the amount of any potential exposure to us. We believe we possess defenses to these claims and intend to vigorously defend this litigation. It is reasonably possible that the actual losses may exceed our accrued liabilities, however, we cannot currently estimate such amount.



We are also exposed to certain other asserted and unasserted potential claims. There can be no assurance that, with respect to potential claims made against us, we could resolve such claims under terms and conditions that would not have a material adverse effect on our business, our liquidity or our financial results. Periodically, we review the status of each significant matter and assess its potential financial exposure. If the potential loss from any claim or legal proceeding is considered probable and a range of possible losses can be estimated, we then accrue a liability for the estimated loss based on the provisions of FASB ASC 450, "Contingencies" ("ASC 450"). Legal proceedings are subject to uncertainties, and the outcomes are difficult to

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predict. Because of such uncertainties, accruals are based only on the best information available at the time. As additional information becomes available, we reassess the potential liability related to pending claims and litigation and may revise estimates. Presently, no accrual has been estimated under ASC 450 for potential losses that may or may not arise from the current lawsuits in which we are involved.

## Note 14 - Segment and Geographic Information:

We operate in one industry segment comprising the design, development, manufacture and marketing of programmable logic products. Our revenue by major geographic area based on ship-to location was as follows (dollars in thousands):

|               | Three Months Ended |     |   | September 29, 2012 |     |   | Nine Months Ended  |     |   | September 29, 2012 |     |   |
|---------------|--------------------|-----|---|--------------------|-----|---|--------------------|-----|---|--------------------|-----|---|
|               | September 28, 2013 |     |   | September 29, 2012 |     |   | September 28, 2013 |     |   | September 29, 2012 |     |   |
| Asia          | \$66,191           | 76  | % | \$48,861           | 69  | % | \$177,848          | 73  | % | \$144,396          | 68  | % |
| Europe        | 11,857             | 14  |   | 12,424             | 17  |   | 36,665             | 15  |   | 37,736             | 18  |   |
| Americas      | 9,106              | 10  |   | 9,604              | 14  |   | 28,493             | 12  |   | 31,249             | 14  |   |
| Total revenue | \$87,154           | 100 | % | \$70,889           | 100 | % | \$243,006          | 100 | % | \$213,381          | 100 | % |

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2. OPERATIONS

## Overview

Lattice Semiconductor Corporation ("Lattice," the "Company," "we," "us," or "our") designs, develops and markets high performance programmable logic products and related software. Programmable logic products are widely used semiconductor components that can be configured by end customers as specific logic circuits, enabling shorter design cycle times and reduced development costs. Our end customers are primarily original equipment manufacturers ("OEMs") in the communications, computing, consumer, industrial, military, automotive, and medical end markets. Within the programmable logic market there are two groups of products - programmable logic devices ("PLD") and field programmable gate arrays ("FPGA") - each representing a distinct silicon architectural approach. Products based on the two alternative programmable logic architectures are generally optimal for different types of logic functions, although many logic functions can be implemented using either architecture. We believe that a substantial portion of programmable logic customers utilize both PLD and FPGA architectures.

## Critical Accounting Policies and Estimates

Critical accounting policies are those that are both most important to the portrayal of a company's financial condition and results and require management's most difficult, subjective and complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. Management believes that there have been no significant changes during the nine months ended September 28, 2013 to the items that we disclosed as our critical accounting policies and estimates in Management's Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on form 10-K for the fiscal year ended December 29, 2012.

Use of Estimates. The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts and classification of assets, such as marketable securities, accounts receivable, inventory, auction rate securities, goodwill (including the assessment of reporting unit), intangible assets, current and deferred income taxes, accrued liabilities (including restructuring charges and bonus arrangements), deferred income and allowances on sales to sell-through distributors, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the fiscal periods presented. Actual results could differ from those estimates.

## Results of Operations

Key elements of our Condensed Consolidated Statements of Operations and Comprehensive Income (Loss) were as follows (dollars in thousands):

|                                     | Three Months Ended |                    |          | Nine Months Ended  |                    |         |           |         |
|-------------------------------------|--------------------|--------------------|----------|--------------------|--------------------|---------|-----------|---------|
|                                     | September 28, 2013 | September 29, 2012 |          | September 28, 2013 | September 29, 2012 |         |           |         |
| Revenue                             | \$87,154           | 100.0 %            | \$70,889 | 100.0 %            | \$243,006          | 100.0 % | \$213,381 | 100.0 % |
| Gross margin                        | 46,376             | 53.2               | 38,548   | 54.4               | 129,641            | 53.3    | 115,084   | 53.9    |
| Research and development            | 20,254             | 23.2               | 20,446   | 28.8               | 58,635             | 24.1    | 58,955    | 27.6    |
| Selling, general and administrative | 16,385             | 18.8               | 17,720   | 25.0               | 49,955             | 20.6    | 55,048    | 25.8    |
|                                     | 737                | 0.8                | 729      | 1.0                | 2,223              | 0.9     | 3,418     | 1.6     |

|  |         |      |   |          |         |          |     |     |            |         |
|--|---------|------|---|----------|---------|----------|-----|-----|------------|---------|
| Acquisition related charges, including amortization of intangible assets |         |      |   |          |         |          |     |     |            |         |
| Restructuring charges  | 85      | 0.1  | — | —        | 257     | 0.1      | 643 | 0.3 |            |         |
| Income (loss) from operations  | \$8,915 | 10.2 | % | \$(347 ) | (0.5 )% | \$18,571 | 7.6 | %   | \$(2,980 ) | (1.4 )% |

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## Revenue by Product Line

The composition of our revenue by product line for the third quarter and first nine months of fiscal 2013 and 2012 was as follows (dollars in thousands):

|               | Three Months Ended |     |   | September 29, 2012 |     |   | Nine Months Ended  |     |   | September 29, 2012 |     |   |
|---------------|--------------------|-----|---|--------------------|-----|---|--------------------|-----|---|--------------------|-----|---|
|               | September 28, 2013 |     | % | September 29, 2012 |     | % | September 28, 2013 |     | % | September 29, 2012 |     | % |
| PLD           | \$60,923           | 70  | % | \$44,751           | 63  | % | \$167,948          | 69  | % | \$139,059          | 65  | % |
| FPGA          | 26,231             | 30  |   | 26,138             | 37  |   | 75,058             | 31  |   | 74,322             | 35  |   |
| Total revenue | \$87,154           | 100 | % | \$70,889           | 100 | % | \$243,006          | 100 | % | \$213,381          | 100 | % |

For the third quarter of fiscal 2013 compared to the third quarter of fiscal 2012, PLD revenue grew by 36% and FPGA revenue was essentially flat. During the first nine months of fiscal 2013 when compared to the first nine months of fiscal 2012, PLD revenue increased 21% while FPGA revenue was essentially flat.

The growth in PLD revenue was driven primarily by volume increases in certain of our new products in the Consumer market.

## Revenue by End Market

The end market data below is derived from data provided to us by our distributors and end customers. With a diverse base of customers who in some cases manufacture end products spanning multiple end markets, the assignment of revenue to a specific end market requires the use of estimates and judgment. Therefore, actual results may differ from those reported. During the first quarter of 2013, we refined our methodology for assigning revenue to end market categories. All periods presented have been revised to conform to this methodology.

The composition of our revenue by end market for the third quarter and first nine months of fiscal 2013 and 2012 was as follows (dollars in thousands):

|                      | Three Months Ended |     |   | September 29, 2012 |     |   | Nine Months Ended  |     |   | September 29, 2012 |     |   |
|----------------------|--------------------|-----|---|--------------------|-----|---|--------------------|-----|---|--------------------|-----|---|
|                      | September 28, 2013 |     | % | September 29, 2012 |     | % | September 28, 2013 |     | % | September 29, 2012 |     | % |
| Communications       | \$30,882           | 35  | % | \$30,948           | 44  | % | \$90,346           | 37  | % | \$91,586           | 43  | % |
| Industrial and other | 17,354             | 20  |   | 22,653             | 32  |   | 55,416             | 23  |   | 68,870             | 32  |   |
| Consumer             | 31,549             | 36  |   | 7,825              | 11  |   | 75,567             | 31  |   | 23,520             | 11  |   |
| Computing            | 7,369              | 9   |   | 9,463              | 13  |   | 21,677             | 9   |   | 29,405             | 14  |   |
| Total revenue        | \$87,154           | 100 | % | \$70,889           | 100 | % | \$243,006          | 100 | % | \$213,381          | 100 | % |

For the third quarter and first nine months of fiscal 2013 compared to the third quarter and first nine months of fiscal 2012, revenue from the Communications market was essentially flat in dollars but lower as a percent of total revenue due to strong growth in the Consumer market.

For the third quarter of fiscal 2013 compared to the third quarter of fiscal 2012 and the first nine months of fiscal 2013 compared to the first nine months of 2012 the Industrial and other market declined approximately 23% and 20%, respectively. This revenue decline is due primarily to reduced sales volume of mature products.

Revenue from our Consumer market increased 303% for the third quarter of fiscal 2013 compared to the third quarter of fiscal 2012 and 221% for the first nine months of fiscal 2013 compared to the first nine months of 2012. Consumer market revenue increased due in large part to the continued growth of our iCE40 product, which bolstered our

Consumer market product offerings.

Revenue from our Computing end market declined approximately 22% for the third quarter of fiscal 2013 when compared to the third quarter of fiscal 2012 and 26% for the first nine months of fiscal 2013 compared to the first nine months of 2012 due to reduced volume driven primarily by macroeconomic factors.

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## Revenue by Product Classification

The composition of our revenue by product classification for the third quarter and first nine months of fiscal 2013 and 2012 was as follows (dollars in thousands):

|               | Three Months Ended |       |                    |       |                    |       | Nine Months Ended  |       |  |  |  |  |
|---------------|--------------------|-------|--------------------|-------|--------------------|-------|--------------------|-------|--|--|--|--|
|               | September 28, 2013 |       | September 29, 2012 |       | September 28, 2013 |       | September 29, 2012 |       |  |  |  |  |
| New *         | \$44,179           | 51 %  | \$18,417           | 26 %  | \$111,037          | 46 %  | \$43,572           | 20 %  |  |  |  |  |
| Mainstream *  | 35,568             | 41    | 38,562             | 54    | 104,624            | 43    | 119,614            | 56    |  |  |  |  |
| Mature *      | 7,407              | 8     | 13,910             | 20    | 27,345             | 11    | 50,195             | 24    |  |  |  |  |
| Total revenue | \$87,154           | 100 % | \$70,889           | 100 % | \$243,006          | 100 % | \$213,381          | 100 % |  |  |  |  |

Revenue for New products increased 140% for the third quarter of fiscal 2013 compared to the third quarter of fiscal 2012 and 155% during the first nine months of fiscal 2013 compared to the first nine months of fiscal 2012. New product revenue increased primarily due to strong volume ramping of certain New products, iCE40 in particular, principally to customers in the Consumer and Communications end markets.

Revenue for Mainstream products decreased 8% for the third quarter of fiscal 2013 compared to the third quarter of fiscal 2012 and 13% for the first nine months of fiscal 2013 compared to the first nine months of fiscal 2012. Mainstream product revenue declined due primarily to reduced sales volume as customers migrated to our newer technologies.

Mature product revenue declined 47% for the third quarter of fiscal 2013 compared to the third quarter of fiscal 2012 and 46% for the first nine months of fiscal 2013 compared to the first nine months of fiscal 2012. Mature product revenues declined primarily due to lower sales volumes as customers migrated to our newer technology and a decline in the sales volume of late life-cycle products in Computing and Industrial and other markets.

## \* Product Classifications:

|             |  |
|-------------|--|
| New:        | LatticeECP3, MachXO2, Power Manager II, and iCE40  |
| Mainstream: | ispMACH 4000ZE, ispMACH 4000/Z, LatticeSC, LatticeECP2/M, LatticeECP, LatticeXP2, LatticeXP, MachXO, ispClock A/D/S, Software and IP   |
| Mature:     | ispXPLD, ispXPGA, FPSC, ORCA 2, ORCA 3, ORCA 4, ispPAC, isplsi 8000V, ispMACH 5000B, ispMACH 2LV, ispMACH 5LV, ispLSI 2000V, ispLSI 5000V, ispMACH 5000VG, all 5-volt CPLDs, ispGDX2, GDX/V, ispMACH 4/LV, iCE65, ispClock, Power Manager I, all SPLDs |

\* Product categories are modified as appropriate relative to our portfolio of products and the generation within each major product family. New products consist of our latest generation of products, while Mainstream and Mature are older or based on unique late stage customer-based production needs. Generally, product categories are adjusted every two to three years, at which time prior periods are reclassified to conform to the new categorization. In the first fiscal quarter of 2012 we reclassified our New, Mainstream and Mature product categories to better reflect our current product portfolio.

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## Revenue by Geography

We assign revenue to geographies based on customer ship-to address at the time when revenue is recognized. In the case of sell-in distributors and OEM customers, revenue is typically recognized, and geography is assigned, when products are shipped to our distributor or customer. In the case of sell-through distributors revenue is recognized when resale to the end customer occurs and geography is assigned based on the end customer location on the resale reports provided by the distributor.

The composition of our revenue by geography for the third quarter and first nine months of fiscal 2013 and fiscal 2012 based on ship-to location was as follows (dollars in thousands):

|               | Three Months Ended |     |   | September 29, 2012 |     |   | Nine Months Ended  |     |   | September 29, 2012 |     |   |
|---------------|--------------------|-----|---|--------------------|-----|---|--------------------|-----|---|--------------------|-----|---|
|               | September 28, 2013 |     | % | September 29, 2012 |     | % | September 28, 2013 |     | % | September 29, 2012 |     | % |
| Asia          | \$66,191           | 76  | % | \$48,861           | 69  | % | \$177,848          | 73  | % | \$144,396          | 68  | % |
| Europe        | 11,857             | 14  |   | 12,424             | 17  |   | 36,665             | 15  |   | 37,736             | 18  |   |
| Americas      | 9,106              | 10  |   | 9,604              | 14  |   | 28,493             | 12  |   | 31,249             | 14  |   |
| Total revenue | \$87,154           | 100 | % | \$70,889           | 100 | % | \$243,006          | 100 | % | \$213,381          | 100 | % |

Revenue increased 35% in Asia for the third quarter of 2013 compared to the third quarter of 2012 and 23% for the first nine months of fiscal 2013 when compared to the first nine months of fiscal 2012 due primarily to strong volume growth of New products in the Consumer market.

Revenue decreased 5% in both the Americas and Europe for the third quarter of fiscal 2013 compared to the third quarter of fiscal 2012. Revenue in the Americas and Europe declined 9% and 3%, respectively, during the first nine months of fiscal 2013 when compared to the first nine months of fiscal 2012.

We believe that the Asia region will remain the primary source of our revenue due to relatively more favorable business conditions in Asia and a continuing trend towards the outsourcing of manufacturing by North American and European customers to the Asia region.

## Revenue from End Customers

Our top five end customers have constituted approximately 45% of our revenue for the first nine months of fiscal 2013, with our largest customer comprising approximately 23% and no other customer accounting for more than 10%.

## Revenue from Distributors

Our largest customers often are distributors, and sales through distributors have historically made up a significant portion of our total revenue. Revenue attributable to resale of products by our primary sell-through distributors for the third quarter and first nine months of fiscal 2013 and fiscal 2012 was as follows:

|   | % of Total Revenue Three Months Ended |                    | % of Total Revenue Nine Months Ended |                    |
|---|---------------------------------------|--------------------|--------------------------------------|--------------------|
|   | September 28, 2013                    | September 29, 2012 | September 28, 2013                   | September 29, 2012 |
| Nu Horizons Electronics Corp. (including its parent company, Arrow Electronics) | 23                                    | % 32               | % 27                                 | % 33               |
| Weikeng Group   | 12                                    | 16                 | 11                                   | 14                 |
| All others  | 6                                     | 8                  | 6                                    | 8                  |



|                               |    |      |      |      |   |
|-------------------------------|----|------|------|------|---|
| All sell-through distributors | 41 | % 56 | % 44 | % 55 | % |
|-------------------------------|----|------|------|------|---|

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## Gross Margin

The composition of our gross margin, including as a percentage of revenue, for the third quarter and first nine months of fiscal 2013 and 2012, respectively, was as follows (dollars in thousands):

|                       | Three Months Ended    |                       |   | Nine Months Ended     |                       |   |
|-----------------------|-----------------------|-----------------------|---|-----------------------|-----------------------|---|
|                       | September 28,<br>2013 | September 29,<br>2012 | % | September 28,<br>2013 | September 29,<br>2012 | % |
| Gross margin          | \$46,376              | \$38,548              |   | \$129,641             | \$115,084             |   |
| Percentage of revenue | 53.2                  | 54.4                  | % | 53.3                  | 53.9                  | % |

For the third quarter of fiscal 2013 compared to the third quarter of fiscal 2012, gross margin decreased 1.2 percentage points. The reduction in Gross Margin is driven largely by relative product and customer mix, resulting from the increased percentage of revenue attributable to New products, which was partially offset by product cost reductions coupled with lower inventory reserves taken in 2013 compared to 2012.

Gross Margin decreased approximately 0.6 percentage points during the first nine months of fiscal 2013 compared to the first nine months of fiscal 2012. Gross Margin degradation due to changes in product and customer mix resulting from an increased percentage of revenue attributable to New products was partially offset by product cost reductions and a slight benefit from the reduction of net inventory reserves.

## Operating Expenses

## Research and development expense

The composition of our research and development expenses, including as a percentage of revenue, for the third quarter and first nine months of fiscal 2013 and 2012, was as follows (dollars in thousands):

|  | Three Months Ended    |                       |             | Nine Months Ended     |                       |             |
|--|-----------------------|-----------------------|-------------|-----------------------|-----------------------|-------------|
|  | September 28,<br>2013 | September 29,<br>2012 | %<br>change | September 28,<br>2013 | September 29,<br>2012 | %<br>change |
| Research and development                           | \$20,254              | \$20,446              | (1 )        | \$58,635              | \$58,955              | (1 )        |
| Percentage of net revenue                          | 23.2                  | 28.8                  | %           | 24.1                  | 27.6                  | %           |
| Mask costs included in<br>Research and development | \$217                 | \$1,409               | (85 )       | \$1,326               | \$2,057               | (36 )       |

Research and development expenses include costs for compensation and benefits, development masks, engineering wafers, depreciation, licenses, and outside engineering services. These expenditures are for the design of new products, intellectual property cores, processes, packaging, and software to support new products.

We believe that a continued commitment to research and development is essential to maintain product leadership and provide innovative new product offerings, and therefore we expect to continue to make significant future investments in research and development.

The decrease in research and development expenses for the third quarter of fiscal 2013, compared to the third quarter of fiscal 2012, was a result of decreased mask costs, primarily offset by increased variable compensation.

The decrease in the first nine months of fiscal 2013, compared to the first nine months of fiscal 2012, was primarily due to a reduction in outside engineering expenditures and in compensation expenses as a result of reduced headcount, largely offset by variable compensation.

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## Selling, General, and Administrative Expense

The composition of our selling, general and administrative expenses, including as a percentage of revenue, for the third quarter and first nine months of fiscal 2013 and 2012 was as follows (dollars in thousands):

|                                     | Three Months Ended    |                       |             | Nine Months Ended     |                       |             |
|-------------------------------------|-----------------------|-----------------------|-------------|-----------------------|-----------------------|-------------|
|                                     | September 28,<br>2013 | September 29,<br>2012 | %<br>change | September 28,<br>2013 | September 29,<br>2012 | %<br>change |
| Selling, general and administrative | \$16,385              | \$17,720              | (8 )        | \$49,955              | \$55,048              | (9 )        |
| Percentage of net revenue           | 18.8                  | % 25.0                | %           | 20.6                  | % 25.8                | %           |

Selling, general, and administrative expenses include costs for compensation and benefits related to selling, general, and administrative employees, commissions, depreciation, professional services and travel expenses.

The decrease in the third quarter and first nine months of fiscal 2013, compared to the third quarter and first nine months of fiscal 2012, was primarily due to a lower compensation expense as a result of reduced headcount, partially offset by an increase in variable compensation.

## Acquisition Related Charges, including amortization of intangible assets

The composition of our acquisition related charges, including amortization of intangible assets, as a percentage of revenue for the third quarter and first nine months of fiscal 2013 and 2012 was as follows (dollars in thousands):

|  | Three Months Ended    |                       |             | Nine Months Ended     |                       |             |
|--|-----------------------|-----------------------|-------------|-----------------------|-----------------------|-------------|
|  | September 28,<br>2013 | September 29,<br>2012 | %<br>change | September 28,<br>2013 | September 29,<br>2012 | %<br>change |
| Acquisition related charges, including amortization of intangible assets | \$737                 | \$729                 | 1           | \$2,223               | \$3,418               | (35 )       |
| Percentage of net revenue  | 0.8                   | % 1.0                 | %           | 0.9                   | % 1.6                 | %           |

Acquisition related charges includes severance and professional fees directly related to acquisitions, as well as the amortization of the stepped up value of inventory and amortization of identifiable intangible assets with finite useful lives associated with our 2011 acquisition of SiliconBlue.

In the third quarter and first nine months of fiscal 2013, the charges consist solely of amortization of intangible assets.

Acquisition related charges in the third quarter of fiscal 2013, compared to the third quarter fiscal 2012, were essentially flat. The decrease in charges during the first nine months of fiscal 2013, compared to and first nine months of fiscal 2012, were primarily a result of non-recurring professional fees and severance costs incurred in 2012.

## Restructuring Charges

The composition of our restructuring related charges, including as a percentage of revenue, for the third quarter and first nine months of fiscal 2013 and 2012 was as follows (dollars in thousands):

| Three Months Ended | Nine Months Ended |
|--------------------|-------------------|
|--------------------|-------------------|

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|                           | September 28,<br>2013 | September 29,<br>2012 | %<br>change | September 28,<br>2013 | September 29,<br>2012 | %<br>change |
|---------------------------|-----------------------|-----------------------|-------------|-----------------------|-----------------------|-------------|
| Restructuring charges     | \$85                  | \$—                   | —           | \$257                 | \$643                 | (60 )       |
| Percentage of net revenue | 0.1                   | % —                   | %           | 0.1                   | % 0.3                 | %           |

In October 2012, our Board of Directors adopted a 2012 restructuring plan. This plan was substantially completed in the first quarter of 2013.

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For the first nine months of fiscal 2013, compared to the first nine months of fiscal 2012, the decrease in restructuring charges primarily resulted from severance and other related costs incurred in the first quarter of 2012 connected with the 2011 restructuring plan completed in the second quarter of fiscal 2012.

## Other income, net

The composition of our Other income, net, including as a percentage of revenue, for the third quarter and first nine months of fiscal 2013 and 2012, was as follows (dollars in thousands):

|                           | Three Months Ended    |                       |             | Nine Months Ended     |                       |             |
|---------------------------|-----------------------|-----------------------|-------------|-----------------------|-----------------------|-------------|
|                           | September 28,<br>2013 | September 29,<br>2012 | %<br>change | September 28,<br>2013 | September 29,<br>2012 | %<br>change |
| Other income, net         | \$346                 | \$88                  | 293         | \$240                 | \$846                 | (72 )       |
| Percentage of net revenue | 0.4                   | % 0.1                 | %           | 0.1                   | % 0.4                 | %           |

For the third quarter of fiscal 2013, compared to the third quarter of fiscal 2012, the increase in Other income, net, resulted primarily from gains on asset disposals in the third quarter of fiscal 2013 compared to losses on disposals in the third quarter of fiscal 2012, coupled with losses on the sales of marketable securities in the third quarter of fiscal 2012 with no recurrence in the third quarter of fiscal 2013.

For the first nine months of fiscal 2013, compared to the first nine months of fiscal 2012, the decrease in Other income, net resulted primarily from a gain on the redemption of auction rate securities in the first nine months of fiscal 2012 while no comparable transaction occurred in the first nine months of fiscal 2013.

## Income Taxes

The composition of our income taxes for the third quarter and first nine months of fiscal 2013 and 2012 was as follows (dollars in thousands):

|                            | Three Months Ended    |                       |             | Nine Months Ended     |                       |             |
|----------------------------|-----------------------|-----------------------|-------------|-----------------------|-----------------------|-------------|
|                            | September 28,<br>2013 | September 29,<br>2012 | %<br>change | September 28,<br>2013 | September 29,<br>2012 | %<br>change |
| Provision for income taxes | \$417                 | \$1,916               | (78 )       | \$3,037               | \$20,297              | (85 )       |

On December 31, 2011, we began to implement a global tax structure to more effectively align our corporate structure with the geographic business operations including responsibility for sales and manufacturing activities. As part of this tax structure reorganization, we created new and realigned existing legal entities, completed intercompany sales of rights to intellectual property, inventory and fixed assets across different tax jurisdictions, and implemented cost-sharing and intellectual property licensing and royalty agreements between our U.S. and foreign entities.

The global tax structure reorganization was completed during the first quarter of 2012 upon the intercompany sale of inventory and fixed assets. During 2012, this inventory was sold to end customers in the ordinary course of business resulting in income before taxes in the United States and a loss before taxes in certain foreign jurisdictions. Because these foreign jurisdictions have 0% income tax rates, we received no tax benefit associated with the losses, resulting in a significant foreign rate differential. Taxes were applied to the U.S. income resulting from the intercompany sale based on U.S. statutory rates, offset by deferred tax assets. This resulted in an increase to the effective tax rate and a net income tax provision of \$1.9 million and \$20.3 million during the third quarter and first nine months ended September 29, 2012, respectively.

For the third quarter and first nine months of 2013 the tax provision and effective tax rate excludes significant discrete items and are consistent with our expectations given the profitability levels and geographic profitability mix achieved.

We are not currently paying federal income taxes and do not expect to pay such taxes until the benefits of our tax net operating loss and credit carryforwards are fully utilized. We expect to pay a nominal amount of state income tax. We accrue

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interest and penalties related to uncertain tax positions in the provision for income taxes. We are paying foreign income taxes, which are primarily related to the cost of operating offshore research and development, marketing and sales subsidiaries.

The inherent uncertainties related to the geographical distribution and relative level of profitability among various high and low tax jurisdictions make it difficult to estimate the impact of the global tax structure on our future effective tax rate.

## Liquidity and Capital Resources

The following sections discuss the effect of changes in our balance sheets, as well as the effects of our contractual obligations, other commitments, and the stock repurchase program on our liquidity and capital resources.

We classify our marketable securities as short-term based on their nature and availability for use in current operations. The overall quality of our portfolio is strong, with our cash equivalents and short-term marketable securities consisting primarily of high quality, investment-grade securities. Our strong cash, cash equivalent and short-term marketable securities positions allows us to use our cash resources for acquisitions, working capital needs, and repurchases of common stock.

We have historically financed our operating and capital resource requirements through cash flows from operations. Cash provided by operating activities will fluctuate from period to period due to fluctuations in operating results, the timing and collection of accounts receivable, and required inventory levels, among other things.

We believe that our financial resources will be sufficient to meet our working capital needs through the next 12 months. As of September 28, 2013, we have no long-term debt and do not have significant long-term commitments for capital expenditures. In the future, we may consider acquisition opportunities to extend our product or technology portfolios and to expand our product offerings. In connection with funding capital expenditures, completing acquisitions, securing additional wafer supply, or increasing our working capital, we may seek to obtain debt or equity financing, or advance purchase payments or similar arrangements with wafer manufacturers. We may also need to obtain debt or equity financing if we experience downturns or cyclical fluctuations in our business that are more severe or longer than we anticipated when determining our current working capital needs.

Cash and cash equivalents, Short-term and Long-term marketable securities (dollars in thousands):

|   | September 28, 2013 | December 29, 2012 | \$ change |
|---|--------------------|-------------------|-----------|
| Cash and cash equivalents   | \$120,770          | \$118,536         | \$2,234   |
| Short-term marketable securities  | 90,002             | 64,865            | 25,137    |
| Long-term marketable securities   | 4,717              | 4,717             | —         |
| Total Cash and cash equivalents, short-term and long-term marketable securities | \$215,489          | \$188,118         | \$27,371  |

As of September 28, 2013, we had total Cash and cash equivalents of \$120.8 million, of which approximately \$22.2 million was held by our foreign subsidiaries. We manage our global cash requirements considering (i) available funds among the subsidiaries through which we conduct business, (ii) the geographic location of our liquidity needs, and (iii) the cost to access international cash balances. The repatriation of non-U.S. earnings may have adverse tax consequences as we may be required to pay and record income tax expense on those funds to the extent they were previously considered permanently reinvested. As of September 28, 2013, we could access all cash held by our foreign subsidiaries without incurring significant additional expense.



The net increase in Cash and cash equivalents, short-term and long-term marketable securities of \$27.4 million compared to December 29, 2012 was primarily the result of cash provided by operations of \$43.5 million offset by cash used for capital expenditures of \$10.2 million, and other investing activities of \$5.9 million.

At September 28, 2013, Long-term investments consisted of auction rate securities with par value of \$5.7 million and an estimated fair value of \$4.7 million. Due to continued multiple failed auctions and the resultant illiquidity of these investments, we have classified our investment in auction rate securities as long-term. We intend to sell the auction rate securities as markets for these securities resume or reasonable offers become available.

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Accounts receivable, net (dollars in thousands):

|                          | September 28, 2013 | December 29, 2012 | Change  |   |
|--------------------------|--------------------|-------------------|---------|---|
| Accounts receivable, net | \$52,991           | \$46,947          | \$6,044 |   |
| Days sales outstanding   | 55                 | 64                | (9      | ) |

Accounts receivable, net increased 13%, as of September 28, 2013, compared to December 29, 2012. Days sales outstanding at September 28, 2013 was 55 days, a decrease of 9 days from December 29, 2012. These changes are primarily due to the increase in revenue in the third quarter of fiscal 2013 compared to the fourth quarter of fiscal 2012.

Inventories (dollars in thousands):

|                             | September 28, 2013 | December 29, 2012 | Change   |   |
|-----------------------------|--------------------|-------------------|----------|---|
| Inventories                 | \$42,295           | \$44,194          | \$(1,899 | ) |
| Months of inventory on hand | 3.1                | 4.4               | (1.3     | ) |

Inventory decreased 4%, as of September 28, 2013, compared to December 29, 2012. Our months of inventory on hand decreased from 4.4 months at December 29, 2012 to 3.1 months at September 28, 2013. The decline in inventory and improvement in months of inventory on hand are driven by significantly higher revenue during the third quarter of 2013 compared to the fourth quarter of 2012.

#### Share Repurchase Program

On February 24, 2012, our Board of Directors approved a stock repurchase program pursuant to which up to \$20.0 million of outstanding common stock may be repurchased from time to time. The duration of the repurchase program was twelve months. The 2012 program was completed during the first quarter fiscal 2013, with the repurchase of approximately 0.6 million shares for \$2.5 million.

On February 27, 2013, our Board of Directors approved a stock repurchase program pursuant to which up to \$20.0 million of outstanding common stock may be repurchased from time to time. The duration of the repurchase program is twelve months. No shares have been repurchased under this program during the three or nine months ended September 28, 2013. We expect that all future repurchases will be open market transactions funded from available working capital.

#### Credit Arrangements

As of September 28, 2013, we had no long-term debt, no significant long-term purchase commitments for capital expenditures, and no existing used or unused credit arrangements.

#### Contractual Obligations

There have been no significant changes to our contractual obligations outside of the ordinary course of business in the first nine months of fiscal 2013 as summarized in Management's Discussion and Analysis of Financial Condition and Results of Operations in the Company's Annual Report on Form 10-K for the year ended December 29, 2012.

#### Off-Balance Sheet Arrangements

As of September 28, 2013, we did not have any off-balance sheet arrangements, as defined in Item 303(a)(4)(ii) of SEC Regulation S-K.



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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Credit Market Risks

At September 28, 2013 and December 29, 2012, we held auction rate securities with a par value of \$5.7 million. At September 28, 2013 and December 29, 2012, the auction rate securities held by us had an estimated fair value of \$4.7 million. Our investments in auction rate securities are subject to interest rate and market risk. A hypothetical 10% movement in interest rates would not have a material impact on the fair value of the portfolio. If the market for our investment portfolio declines, our consolidated operating results may be negatively impacted.

Foreign Currency Exchange Rate Risk

We have international subsidiary and branch operations. In addition, a portion of our silicon wafer and other purchases are denominated in Japanese yen and we bill our Japanese customers in yen. We mitigate the resulting foreign currency exchange rate exposure by entering into foreign currency forward exchange contracts for Japanese yen. Although such hedges mitigate our foreign currency exchange rate exposure from an economic perspective, they were not designated as "effective" hedges for accounting purposes and are adjusted to fair value through earnings. We do not hold or issue derivative financial instruments for trading or speculative purposes.

As a result of the use of derivative financial instruments, we are exposed to the risk that counter-parties to derivative contracts will fail to meet their contractual obligations. To mitigate the counter-party credit risk, we enter into contracts with major financial institutions based upon their credit ratings and other factors.

There have been no material changes to the quantitative and qualitative disclosures about market risk reported in our Annual Report on Form 10-K for the year ended December 29, 2012.

ITEM 4. CONTROLS AND PROCEDURES

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our principal executive officer and our principal financial officer, we conducted an evaluation of our disclosure controls and procedures, as such term is defined under Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended, as of the end of the period covered by this report. Based on this evaluation, our principal executive officer and our principal financial officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this quarterly report.

Changes in Internal Control over Financial Reporting

There has been no change in our internal control over financial reporting (as defined in Rules 13a - 15(f) and 159d) - 15(f) under the Exchanges Act) that occurred during the first nine months of fiscal 2013 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The information set forth above under Note 13 contained in the “Notes to Condensed Consolidated Financial Statements” is incorporated herein by reference.

ITEM 1A. Risk Factors

The following risk factors and other information include any material changes to and supersede the description of the risk factors associated with our business previously disclosed in our Annual Report on Form 10-K for the year ended December 29, 2012 and should be carefully considered before making an investment decision relating to our common stock. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties not presently known to us or that we currently deem immaterial also may impair our business operations. If any of the following risks occur, our business, financial condition, operating results and cash flows could be materially adversely affected.

We rely on independent foundries for the manufacture of all of our products and a manufacturing problem or insufficient foundry capacity could adversely affect our operations.

We depend on independent foundries to supply silicon wafers for many of our products. These foundries include Fujitsu Semiconductor Limited ("Fujitsu") in Japan, which supplies the majority of our wafers. We negotiate wafer volumes, prices and other terms with our foundry partners and their respective affiliates on a periodic basis typically resulting in short-term agreements which do not ensure long-term supply or allocation commitments. We rely on our foundry partners to produce wafers with competitive performance attributes. Should the foundries that supply our wafers experience manufacturing problems, including unacceptable yields, delays in the realization of the requisite process technologies, or difficulties due to limitations of new and existing process technologies, our operating results could be adversely affected. Should the foundries not be able to manufacture sufficient quantities of our products or continue to manufacture a product for the full life of the product, we may be required to prematurely limit or discontinue the sales of certain products, incur significant costs to transfer products to other foundries, and our customer relationships and our operating results could be adversely affected. In addition, weak economic conditions may adversely impact the financial health and viability of the foundries and cause them to limit or discontinue their business operations, resulting in their inability to meet their commitments to us and shortages of supply, which could adversely affect our financial condition and operating results.

A disruption of our foundry partners' operations as a result of a fire, earthquake, act of terrorism, political or labor unrest, governmental uncertainty, war, disease or other natural disaster or catastrophic event, or any other reason, could disrupt our wafer supply and could adversely affect our operating results.

If we fail to maintain our foundry relationships or elect or are required to change foundries, we will incur significant costs and manufacturing delays. The success of certain of our next generation products is dependent upon our ability to successfully partner with Fujitsu and other foundry partners, including Seiko Epson Corporation in Japan, United Microelectronics Corporation in Taiwan, GLOBALFOUNDRIES in Singapore, and Taiwan Semiconductor Manufacturing Company Ltd. ("TSMC") in South Korea. If for any reason our foundry partners do not provide their facilities and support for our development efforts, we may be unable to effectively develop new products in a timely manner.

Establishing, maintaining and managing multiple foundry relationships requires the investment of management resources as well as additional costs. If we do not manage these relationships effectively, it could adversely affect our

operating results. Should a change in foundry relationships be required, we may be unsuccessful in establishing new foundry relationships for our current or next generation products, or may incur substantial cost and or manufacturing delays until we form and ramp relationships and migrate products, each of which could adversely affect our operating results.

In order to secure new or additional wafer supply, we may from time to time consider various financial arrangements including equity investments, advance purchase payments, loans, or similar arrangements with independent wafer manufacturers in exchange for committed wafer capacity or other support. To the extent that we pursue any such additional financing arrangements, additional debt or equity financing may be required. There can be no assurance that such additional financing will be available when needed or, if available, will be on favorable terms. Any future equity financing will decrease existing stockholders' equity percentage ownership resulting in dilution.

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We depend on distributors to generate a majority of our sales and complete order fulfillment.

We depend on our distributors to sell our products to end customers, complete order fulfillment and maintain sufficient inventory of our products. Our distributors also provide technical support and other value-added services to our end customers. Resale of product through distributors accounted for 55% of our revenue in 2012, with two distributors accounting for 47% of our revenue in 2012. We expect our distributors to generate a significant portion of our revenue in the future. Any adverse change to our relationship with our distributors or a failure by one or more of our distributors to perform its obligations to us could have a material impact on our business. In addition, a significant reduction of effort by a distributor to sell our products or a material change in our relationship with one or more distributors may reduce our access to certain end customers and adversely affect our ability to sell our products. The financial health of our distributors is important to our success. Economic conditions may adversely impact the financial health of one or more of our distributors. This could result in the inability of distributors to finance the purchase of our products or cause the distributors to delay payment of their obligation to us and increase our credit risk. If the financial health of our distributors impairs their performance and we are unable to secure alternate distributors, our financial condition and results of operations may be negatively impacted.

In addition, our distribution channels recently have experienced consolidation due to merger and acquisition activity. Consolidation may result in our distributors allocating fewer resources to the distribution and sale of our products, which could adversely affect our financial results.

We depend on the timeliness and accuracy of resale reports from our distributors; late or inaccurate resale reports could have a detrimental effect on our ability to properly recognize revenue and our ability to predict future sales. A downturn in the Communications end market could cause a further reduction in demand for our products and limit our ability to maintain revenue levels and operating results.

Prior to this quarter, the largest percentage of our revenue has been derived from customers participating in the Communications end market. In addition, sales to two large China-based telecommunication equipment providers accounted for 14% of our revenue in 2012. This is primarily due to strength in the wireless portion of the Communications end market. In the past, a general weakening in demand for programmable logic products from customers in the Communications end market has adversely affected our revenue. In addition, telecommunication equipment providers are building network infrastructure for which we compete for product sales. Any deterioration in the Communications end market or our end customers' reduction in spending to support this end market could lead to a reduction in demand for our products which could adversely affect our revenue and results of operations. The Consumer end market is cyclical, and our failure to accurately predict the frequency, duration, timing and severity of these cycles could adversely affect our financial condition and results.

Revenue from the Consumer end market accounted for 15% of our revenue in fiscal 2012 and has increased as a percentage of our revenues. During this quarter, the largest percentage of our revenue derived from customers participating in this end market. Revenue from the Consumer end market consists primarily of revenue from our products designed and used in a broad range of products including smart handheld devices, flat panel displays, digital cameras and camcorders, gaming consoles, and set-top boxes. This market is characterized by rapidly changing requirements and products. Our success in this market will depend principally on our ability to:

- meet the market windows for consumer products;
- predict technology and market trends;
- develop products on a timely basis; and
- avoid cancellations or delay of products.

Our inability to accomplish any of the foregoing could materially and adversely affect our business, financial condition, and results of operations. Cyclicity in the Consumer market could periodically result in higher levels of revenue concentration with a single or small number of customers. In addition, because of rapid changes in this

market, which may affect demand for our products, the revenue derived from sales in this market may vary significantly over time adversely affecting our financial results.



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We are dependent on a concentrated group of customers for a significant part of our revenues. If we were to lose any of these customers, our revenue could decrease significantly.

A large portion of our revenue depends on sales to a limited number of customers. If these relationships were to diminish, or if these customers were to develop their own solutions, or adopt an alternative solution or a competitor's solution, our results could be adversely affected.

While we strive to maintain a strong relationship with our customers, certain of our customers' product life cycles are relatively short and they continually develop new products. The selection process for our products to be included in our customers' new products is highly competitive. There are no guarantees that our products will be included in the next generation of products introduced by these customers. Any significant loss of, or a significant reduction in purchases by, these customers or their failure to meet their commitments to us, could have an adverse effect on our financial condition and results of operations. If any one or more of our significant customers were to experience significantly adverse financial conditions, our financial condition and business would be adversely affected as well.

General economic conditions and deterioration in the global business environment could have a material adverse effect on our business, operating results and financial condition.

Adverse economic conditions may negatively affect customer demand for our products and services and result in postponed or decreased spending amid concerns over declining asset values, inflation, volatility in energy costs, geopolitical issues, the availability and cost of credit, rising unemployment, and the stability and solvency of financial institutions, financial markets, businesses and sovereign nations, among other concerns. Recent events have shown that the financial conditions of sovereign nations, particularly in Europe, are of continuing concern as the sovereign debt crisis remains unresolved. These weak global economic conditions resulted in reduced end customer demand and had a negative impact on our results of operations during fiscal 2012. If weak economic conditions persist or worsen, our business could be harmed due to customers or potential customers reducing or delaying orders, the insolvency of key suppliers, which could result in production delays, the inability of customers to obtain credit, and the insolvency of one or more customers. Any of these effects could impact our ability to effectively manage inventory levels and collect receivables, require additional restructuring actions, and ultimately decrease our net revenues and profitability. Uncertainty about future economic conditions makes it difficult for us to forecast operating results and to make decisions about future investments. Any or all of these factors could adversely affect our financial condition and results of operations in the future.

The semiconductor industry routinely experiences cyclical market patterns and a significant industry downturn could adversely affect our operating results.

Our revenue and gross margin can fluctuate significantly due to downturns in the semiconductor industry. These downturns can be severe and prolonged and can result in price erosion and weaker demand for our products. Weaker demand for our products resulting from general economic conditions affecting the end markets we serve or the semiconductor industry specifically and reduced spending by our customers can result, and in the past has resulted, in excess and obsolete inventories and corresponding inventory write-downs. The dynamics of the markets in which we operate make prediction of and timely reaction to such events difficult. Due to these and other factors, our past results are not reliable predictors of our future results.

Our expense levels are based, in part, on our expectations of future sales. Many of our expenses, particularly those relating to facilities, capital equipment, and other overhead, are relatively fixed. We might be unable to reduce spending quickly enough to compensate for reductions in sales. Accordingly, shortfalls in sales could materially and adversely affect our operating results.

Our success depends on our ability to develop and introduce new products and failure to do so could have a material adverse effect on our financial condition and results of operations.

The programmable logic market is characterized by rapid technology and product evolution on advanced technologies. Our competitive position and success depends on our ability to develop and introduce new products that compete effectively on the basis of price, density, functionality, power consumption and performance addressing the needs of the markets we serve. These new products typically are more technologically complex than their predecessors.

The success of new product introductions depends upon numerous factors, including:

• timely completion and introduction of new product designs;

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- ability to generate new design opportunities and design wins;
- availability of specialized field application engineering resources supporting demand creation and customer adoption of new products;
- ability to utilize advanced manufacturing process technologies;
- achieving acceptable yields;
- ability to obtain adequate production capacity from our wafer foundries and assembly and test subcontractors;
- ability to obtain advanced packaging;
- availability of supporting software design tools;
- utilization of predefined IP logic;
- customer acceptance of advanced features in our new products; and
- market acceptance of our customers' products.

Our product development efforts may not be successful, our new products may not achieve industry acceptance and we may not achieve the necessary volume of production that would lead to acceptable cost reductions. Revenues relating to our mature products are expected to decline in the future, which is normal for our product life cycles. As a result, we may be increasingly dependent on revenues derived from design wins for our newer products as well as anticipated cost reductions in the manufacture of our current products. We rely on obtaining yield improvements and corresponding cost reductions in the manufacture of existing products and on introducing new products that incorporate advanced features and other price/performance factors that enable us to increase revenues while maintaining acceptable margins. To the extent such cost reductions and new product introductions do not occur in a timely manner, or that our products do not achieve market acceptance at prices with higher margins, our financial condition and results of operations could be materially adversely affected.

Foreign sales account for the majority of our revenue and we have significant international operations exposing us to various economic, regulatory, political, and business risks which could have a material adverse effect on our operations, financial condition, and results of operations.

We derive the majority of our revenue from sales outside of the United States. Accordingly, if we experience a decline in foreign sales, our operating results could be adversely affected. Our foreign sales are subject to numerous risks, including:

- changes in local economic conditions;
- currency exchange rate volatility;
- governmental stimulus packages, controls and trade restrictions;
- export license requirements, foreign trade compliance matters, and restrictions on the use of technology;
- political instability, war, terrorism or pandemic disease;
- changes in tax rates, tariffs or freight rates;
- reduced protection for intellectual property rights;
- longer receivable collection periods;
- natural or man-made disasters in the countries where we sell our products;
- interruptions in transportation;
- interruptions in the global communication infrastructure; and
- labor regulations.

Any of these factors could adversely affect our financial condition and results of operations in the future.

We have significant international operations, including foreign sales offices to support our international customers and distributors, an operational center in the Philippines, and research and development sites in China, India and the Philippines. Our international operations have grown as we relocated certain operational, design, and administrative functions outside the United States. In addition, we purchase our wafers from foreign foundries, have our commercial products assembled, packaged and tested by subcontractors located outside the United States, and rely upon an international service provider for inventory management, order fulfillment, and direct sales logistics.

These and other integral business activities outside of the United States are subject to the risks and uncertainties associated with conducting business in foreign economic and regulatory environments including trade barriers, economic sanctions, environmental regulations, import and export regulations, duties and tariffs and other trade restrictions, changes in trade policies, anti-corruption laws, domestic and foreign governmental regulations, potential vulnerability of and reduced protection for IP, longer receivable collection periods, disruptions or delays in production or shipments, and instability or fluctuations in exchange rates, any of which could have a material adverse effect on our business, financial condition and/or operating results.

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Moreover, our financial condition and results of operations could be affected in the event of political instability, terrorist activity, U.S. or other military actions, or economic crises in countries where our main wafer suppliers, end customers, contract manufacturers, and logistics providers are located.

Our global organizational structure and operations expose us to unanticipated tax consequences.

Our legal organizational structure could result in unanticipated unfavorable tax or other consequences which could have an adverse effect on our financial condition and results of operations. In 2011 and 2012, we implemented a global tax structure to more effectively align our corporate structure business operations including responsibility for sales and purchasing activities. We created new and realigned existing legal entities, completed intercompany sales of rights to intellectual property, inventory and fixed assets across different tax jurisdictions, and implemented cost-sharing and intellectual property licensing and royalty agreements between our legal entities. We currently operate legal entities in countries where we conduct supply-chain management, design, and sales operations around the world. In some countries, we maintain multiple entities for tax or other purposes. Changes in tax laws, regulations, future jurisdictional profitability of the Company and its subsidiaries, and related regulatory interpretations in the countries in which we operate may impact the taxes we pay or tax provision we record, which could adversely affect our results of operations.

We are subject to taxation in Singapore, the United States and other countries. Future effective tax rates could be affected by changes in the composition of earnings in countries with differing tax rates, changes in the valuation of deferred tax assets and liabilities, or changes in tax laws. We compute our effective tax rate using actual jurisdictional profits and losses. Changes in the jurisdictional mix of profits and losses may cause fluctuations in the effective tax rate. Adverse changes in tax rates, our tax assets, and tax liabilities could negatively affect our results in the future. We cannot give any assurance as to what taxes we pay or the ability to estimate our future effective tax rate because of, among other things, uncertainty regarding the tax policies of the jurisdictions where we operate. The U.S. government has proposed tax policy changes with respect to the taxation of non-U.S. operations. As a result, our actual effective tax rate or taxes paid may vary materially from our expectations. Changes in tax laws, regulations and related interpretations in the countries in which we operate may have an adverse effect on our business, financial condition or operating results.

A number of factors, including our inventory strategy, can impact our gross margins.

A number of factors, including yield, wafer pricing, cost of packaging raw materials, product mix, market acceptance of our new products, competitive pricing dynamics, geographic and/or market segment pricing strategies can cause our gross margins to fluctuate. In addition, forecasting our gross margins is difficult because a significant portion of our business is based on turns within the same quarter.

Our current inventory levels are higher than historical norms due to our decisions to reduce direct material cost and enable timely responsiveness to surges in demand. In the event demand does not materialize, we may be subject to incremental excess and obsolescence costs. In addition, future product cost reductions could impact our inventory valuation, which could adversely affect our operating results.

We are dependent on independent contractors for a majority of our assembly, test, and logistics services, and disruption of these services could negatively impact our financial condition and results of operations.

We are dependent on subcontractors to assemble, test and ship our products with acceptable quality and yield levels. Certain problems could delay shipments and have a material adverse effect on our ability to meet customer demands, including: prolonged inability to obtain wafers with competitive performance and cost attributes, adequate yields or timely delivery; disruption in assembly, test or shipping services; delays in stabilizing manufacturing processes and ramping up volume for new products; transitions to new service providers; or any other circumstances that would require us to seek alternative sources of supply. Economic conditions may adversely impact the financial health and viability of our subcontractors and result in their inability to meet their commitments to us. These factors could result in product shortages, quality assurance problems, reduced revenue and/or increased costs which could negatively impact our financial condition and results of operations.

In the past, we have experienced delays in obtaining assembled and tested products and in securing assembly and test capacity commitments from our suppliers. We currently anticipate that our assembly and test capacity commitments are adequate; however, these existing commitments may not be sufficient for us to satisfy customer demand in future periods. We negotiate assembly and test prices and capacity commitments from our contractors on a periodic basis. If any of our assembly or test contractors reduced their capacity commitment or increased their prices, and we cannot find alternative sources, our operating results could be adversely affected.

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Increased costs of wafers and materials, or shortages in wafers and materials could adversely impact our gross margins and lead to reduced revenues.

If greater demand for wafers is not offset by increased foundry capacity, if market demand for wafers or production and assembly materials increases, or if a supplier of our wafers or assembly materials ceases or suspends operations or otherwise experiences a disruption to its operations, our supply of wafers and other materials could become constrained. Worldwide manufacturing capacity for silicon wafers is relatively limited and inelastic. Wafer shortages could result in wafer price increases or shortages in materials at production and test facilities, which could decrease our ability to meet customer product demands in a timely manner.

If any of our current or future foundry partners or assembly and test subcontractors significantly increases the costs of wafers or other materials or interrupts or reduces our supply, including for reasons outside of their control, or if any of our relationships with our partner suppliers is terminated, our operating results could be adversely affected.

Our future revenue is dependent on customer and market acceptance of our programmable logic solutions.

We operate in a dynamic environment marked by rapid product obsolescence. The programmable logic market is characterized by rapid technology and product evolution followed by a relatively longer ramp process to volume production. Our success depends on our ability to develop and introduce new products that compete effectively on the basis of price and performance and which address the markets we serve.

Customer design-in activity and, therefore, future revenue growth, is dependent on market acceptance of our new products and the continued market acceptance of our current products. We face uncertainties relating to the potential impact of customer design-in activity because we cannot easily predict whether any particular customer design-in will ultimately result in sales of significant volume. After we obtain a specific customer design-in, many factors can impact the timing and volume of sales which are ultimately realized. Changes in the competitive position of our technology, our customers' product competitiveness or product strategy, the financial condition of the customer, and other factors can impact the timing and volume of sales ultimately realized from any specific customer design-in. If our new products do not achieve market acceptance, or our current products do not maintain market acceptance, we may not be able to manage production levels or accurately forecast the future revenue and operating results may be adversely affected.

Product quality problems could lead to reduced revenue, gross margins and net income.

We generally warrant our products for varying lengths of time against non-conformance to our specifications and certain other defects. Because our products, including hardware, software and intellectual property cores, are highly complex and increasingly incorporate advanced technology, our quality assurance programs may not detect all defects, whether manufacturing defects in individual products or systematic defects that could affect numerous shipments. Inability to detect a defect could result in a diversion of our engineering resources from product development efforts, increased engineering expenses to remediate the defect and increased costs due to inventory impairment charges. On occasion we have also repaired or replaced certain components or made software fixes or refunded the purchase price or license fee paid by our customers due to product or software defects. If there are significant product defects, the costs to remediate such defects, net of reimbursed amounts from our vendors, if any, or to resolve warranty claims may adversely affect our revenue, gross margins and net income.

The nature of our business makes our revenue and gross margin subject to fluctuation and difficult to predict which could have an adverse impact on our business.

In addition to the challenging market conditions we may face, we have limited visibility into the demand for our products, particularly new products, because demand for our products depends upon our products being designed into our end customers' products and those products achieving market acceptance. Due to the complexity of our customers'

designs, the design to volume production process for our customers requires a substantial amount of time, frequently longer than a year. In addition, we are dependent upon "turns," orders received and turned for shipment in the same quarter. These factors make it difficult for us to forecast future sales and project quarterly revenues. The difficulty in forecasting future sales impairs our ability to project our inventory requirements, which could result, and in the past has resulted, in inventory write-downs or failure to meet customer product demands in a timely manner. The difficulty in forecasting revenues as well as the relative customer and product mix of those revenues impedes our ability to provide forward-looking revenue and gross margin guidance.



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Reductions in the average selling prices of our products could have a negative impact on our gross margins.

The average selling prices of our products generally decline as the products mature or may decline as we compete for market share or customer acceptance in competitive markets. We seek to offset the decrease in selling prices through yield improvement, manufacturing cost reductions and increased unit sales. We also seek to continue to develop higher value products or product features that increase, or slow the decline of, the average selling price of our products. However, we cannot guarantee that our ongoing efforts will be successful or that they will keep pace with the decline in selling prices of our products, which could ultimately lead to a decline in revenues and have a negative effect on our gross margins.

If we are unable to adequately protect our intellectual property rights, our financial results and our ability to compete effectively may suffer.

Our success depends in part on our proprietary technology and we rely upon patent, copyright, trade secret, mask work and trademark laws to protect our intellectual property. We intend to continue to protect our proprietary technology, however, we may be unsuccessful in asserting our intellectual property rights or such rights may be invalidated, violated, circumvented or challenged. From time to time, third parties, including our competitors, have asserted against us patent, copyright and other intellectual property rights to technologies that are important to us. Third parties may attempt to misappropriate our intellectual property through electronic or other means or assert infringement claims against us in the future. Such assertions by third parties may result in costly litigation, indemnity claims or other legal actions, and we may not prevail in such matters or be able to license any valid and infringed patents from third parties on commercially reasonable terms. This could result in the loss of our ability to import and sell our products or require us to pay costly royalties to third parties in connection with sales of our products. Any infringement claim, indemnification claim, or impairment or loss of use of our intellectual property could materially adversely affect our financial condition and results of operations.

Litigation and unfavorable results of legal proceedings could adversely affect our financial condition and operating results.

From time to time we are subject to various legal proceedings and claims that arise out of the ordinary conduct of our business. Certain claims are not yet resolved, including those that are discussed under Note 13 contained in the Notes to Condensed Consolidated Financial Statements, and additional claims may arise in the future. Results of legal proceedings cannot be predicted with certainty. Regardless of merit, litigation may be both time-consuming and disruptive to our operations and cause significant expense and diversion of management attention and we may enter into material settlements to avoid these risks. Should we fail to prevail in certain matters, we may be faced with significant monetary damages or injunctive relief against us that could materially and adversely affect our financial condition and operating results and certain portions of our business.

If we are not able to successfully compete in the highly competitive semiconductor industry, our financial results and future prospects will be adversely affected.

The semiconductor industry is intensely competitive and many of our direct and indirect competitors have substantially greater financial, technological, manufacturing, marketing and sales resources. The current level of competition in the programmable logic market is high and may increase in the future. We currently compete directly with companies that have licensed our technology or have developed similar products, including Altera Corporation and Xilinx, Inc. We also compete with numerous semiconductor companies that offer products based on alternative solutions such as ASIC, ASSP, microcontroller, analog, and digital signal processing ("DSP") technologies. Competition from these semiconductor companies may increase as we offer products in the Consumer market. These competitors are established, multinational semiconductor companies as well as emerging companies. If we are unable

to compete successfully in this environment, our future results may be adversely affected.

We depend upon a third party to provide inventory management, order fulfillment, and direct sales logistics and disruption of these services could adversely impact our business and results of operations.

We rely on a third party vendor to provide cost-effective and efficient supply chain services. Among other activities, these outsourced services relate to direct sales logistics, including order fulfillment, inventory management and warehousing, and distribution of inventory to third party distributors. If our third party supply chain partner were to discontinue services for us or its operations are disrupted as a result of a fire, earthquake, act of terrorism, political unrest, governmental uncertainty, war, disease or other natural disaster or catastrophic event, or any other reason, our ability to fulfill direct sales orders and distribute inventory timely, cost effectively, or at all, would be hindered, which could adversely affect our business.

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We rely on independent software and hardware developers and disruption of these services could negatively affect our operations and financial results.

We rely on independent software and hardware developers for the design, development, supply and support of intellectual property cores, design and development software, and certain elements of evaluation boards. As a result, failure or significant delay to complete software or deliver hardware in accordance with our plans and agreements could disrupt the release of or introduction of new or existing products, which might be detrimental to the capability of our new products to win designs. Any of these delays or inability to complete the design or development could have an adverse effect on our business, financial condition, or operating results.

We rely on information technology systems, and failure of these systems to function properly or our failure to control unauthorized access to our systems may cause business disruptions.

We rely in part on various information technology ("IT") systems to manage our operations, including financial reporting, and we regularly make changes to improve them as necessary. Consequently, we periodically implement new, or upgrade or enhance existing, operational and IT systems, procedures and controls. Any delay in the implementation of, or disruption in the transition to, new or enhanced systems, procedures or controls, could harm our ability to record and report financial and management information on a timely and accurate basis. These systems are also subject to power and telecommunication outages or other general system failures. Failure of our IT systems or difficulties in managing them could result in excessive cost or business disruption. We may also be subject to unauthorized access to our IT systems through a security breach or attack. In the past third parties have attempted to penetrate and or infect our network and systems with malicious software in an effort to gain access to our network and systems. We seek to prevent, detect and investigate any security incidents and prevent their recurrence, but in some cases, we might be unaware of an incident or its magnitude and effects. Our business could be significantly harmed and we could be subject to third party claims in the event of such a security breach.

We may have failed to adequately insure against certain risks, and, as a result, our financial condition and results may be adversely affected.

We carry insurance customary for companies in our industry, including, but not limited to, liability, property and casualty, workers' compensation and business interruption insurance. We also insure our employees for basic medical expenses. In addition, we have insurance contracts that provide director and officer liability coverage for our directors and officers. Other than the specific areas mentioned above, we are self-insured with respect to most other risks and exposures, and the insurance we carry in many cases is subject to a significant policy deductible or other limitation before coverage applies. Based on management's assessment and judgment, we have determined that it is more cost effective to self-insure against certain risks than to incur the insurance premium costs. The risks and exposures for which we self-insure include, but are not limited to, natural disasters, product defects, political risk, theft, patent infringement and some employment practice matters. Should there be a catastrophic loss due to an uninsured event such as an earthquake or a loss due to adverse occurrences in any area in which we are self-insured, our financial condition or operating results could be adversely affected.

We compete with others to attract and retain key personnel, and any loss of, or inability to attract, such personnel would harm us.

We depend on the efforts and abilities of certain key members of management and other technical personnel. Our future success depends, in part, upon our ability to retain such personnel and attract and retain other highly qualified personnel, particularly product engineers. Competition for such personnel is intense and we may not be successful in hiring or retaining new or existing qualified personnel. From time to time we have effected restructuring which have eliminated a number of positions. Even if such personnel are not directly affected by the restructuring effort, such

terminations can have a negative impact on morale and our ability to attract and hire new qualified personnel in the future. If we lose existing qualified personnel or are unable to hire new qualified personnel, as needed, our business, financial condition and results of operations could be seriously harmed.

Acquisitions and strategic investments present risks, and we may not realize the goals that were contemplated at the time of a transaction.

During 2011, we acquired technology companies whose products complement our products, and in the past we have made a number of strategic investments in other technology companies whom we believe complement and improve our operational capabilities. We may make similar acquisitions and strategic investments in the future. Acquisitions and strategic investments present risks, including:

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our ongoing business may be disrupted and our management's attention may be diverted by investment, acquisition, transition or integration activities;

an acquisition or strategic investment may not further our business strategy as we expected, and we may not integrate an acquired company or technology as successfully as we expected;

our operating results or financial condition may be adversely impacted by unexpected costs, claims or liabilities that we assume from an acquired company or technology or that are otherwise related to an acquisition;

we may have difficulty incorporating acquired technologies or products with our existing product lines;

we may have higher than anticipated costs in continuing support and development of acquired products, in general and administrative functions that support such products;

we may have difficulty integrating and retaining key personnel;

our liquidity and/or capital structure may be adversely impacted;

our strategic investments may not perform as expected; and

we may experience unexpected changes in how we are required to account for our acquisitions and strategic investments pursuant to U.S. GAAP.

The occurrence of any of these risks could have a material adverse effect on our business, results of operations, financial condition or cash flows, particularly in the case of a larger acquisition or several concurrent acquisitions or strategic investments.

We cannot guarantee that we will be able to consummate any future acquisitions or that we will realize any anticipated benefits from any of our past or future acquisitions. We may not be able to find suitable acquisition opportunities that are available at attractive valuations, if at all. A sustained decline in the price of our common stock may make it more difficult and expensive to initiate or consummate additional acquisitions on commercially acceptable terms.

As a result of past acquisitions, as of December 29, 2012, we had \$44.8 million in goodwill on our balance sheet. We are required under U.S. GAAP to test goodwill for possible impairment on an annual basis and at any other time that circumstances arise indicating the carrying value may not be recoverable. We completed our annual test of goodwill impairment in the fourth quarter of 2012 and concluded that we did not have any impairment at that time. There is no assurance that future impairment tests will indicate that goodwill will be deemed recoverable.

The conflict minerals provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act could result in additional costs and liabilities.

The Dodd-Frank Wall Street Reform and Consumer Protection Act requires the SEC to establish new disclosure and reporting requirements for those companies who use "conflict" minerals mined from the Democratic Republic of Congo and adjoining countries in their products, whether or not these products are manufactured by third parties. When these new requirements are implemented, they could affect the sourcing and availability of minerals used in the manufacture of our semiconductor products. There will also be costs associated with complying with the disclosure requirements, including for due diligence in regard to the sources of any conflict minerals used in our products, in addition to the cost of any required remediation and other changes to products, processes, or sources of supply as a consequence of such verification activities.

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ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

On February 27, 2013, the Company's Board of Directors approved a stock repurchase program pursuant to which up to \$20.0 million of outstanding common stock may be repurchased from time to time. The duration of the repurchase program is twelve months. No shares were repurchased during the three or nine months ended September 28, 2013. We expect that all future repurchases will be open market transactions funded from available working capital.

ITEM 5. OTHER INFORMATION

On August 20, 2013, Patrick Jones, Chairman of the Board, established a rule 10b5-1 plan for shares of the Company's common stock as part of a personal investment diversification strategy. Rule 10b5-1 requires, among other things, that a trading plan be established only at a time when a director or officer is not aware of material, non-public information. The plan specifies the term of the plan, which will expire May 12, 2015 or such earlier date as all shares subject to the plan are sold, the number of shares to be sold, and the times and prices at which shares may be sold. If all conditions of the plan are met, up to 81,000 shares may be sold under the plan, which would equal approximately 33% of the aggregate number of shares, including vested and unvested equity awards, that Mr. Jones held as of September 28, 2013.

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ITEM 6. EXHIBITS

| Exhibit<br>Number | Description   |
|-------------------|---|
| 3.1               | The Company's Restated Certificate of Incorporation filed, as amended on June 4, 2009 (Incorporated by reference to Exhibit 3.1 filed with the Company's Current Report on Form 8-K filed June 4, 2009).  |
| 3.2               | The Company's Bylaws, as amended and restated as of June 4, 2009 (Incorporated by reference to Exhibit 3.2 filed with the Company's Current Report on Form 8-K filed June 4, 2009).   |
| 10.24*            | Lattice Semiconductor Corporation 1996 Stock Incentive Plan, as amended, and Related Form of Option Agreement (Incorporated by reference to Exhibit 10.24 filed with the Company's Annual Report on Form 10-K for the fiscal year ended December 29, 2012)  |
| 10.33*            | 2001 Outside Directors' Stock Option Plan, as amended and restated (Incorporated by reference to Exhibit 10.33 filed with the Company's Annual Report on Form 10-K for the fiscal year ended December 29, 2012)   |
| 10.34*            | 2001 Stock Plan, as amended, and related Form of Option Agreement (Incorporated by reference to Exhibit 10.34 filed with the Company's Annual Report on Form 10-K for the fiscal year ended December 29, 2012)  |
| 10.35             | Intellectual Property Agreement by and between Agere Systems Inc. and Agere Systems Guardian Corporation and Lattice Semiconductor Corporation as Buyer, dated January 18, 2002 (Incorporated by reference to Exhibit 10.35 filed with the Company's Annual Report on Form 10-K for the fiscal year ended December 29, 2001). |
| 10.37*            | Lattice Semiconductor Corporation Executive Deferred Compensation Plan, as amended and restated effective as of August 11, 1997 (Incorporated by reference to Exhibit 99.3 filed with the Company's Registration Statement on Form S-3, as amended, dated October 17, 2002).  |
| 10.38*            | Amendment No. 1 to the Lattice Semiconductor Corporation Executive Deferred Compensation Plan, as amended, dated November 19, 1999 (Incorporated by reference to Exhibit 99.4 filed with the Company's Registration Statement on Form S-3, as amended, dated October 17, 2002).   |
| 10.39             | Registration Rights Agreement, dated as of June 20, 2003, between the Company and the initial purchaser named therein (Incorporated by reference to Exhibit 4.3 filed with the Company's Registration Statement on Form S-3 on August 13, 2003).  |
| 10.41*            | Form of Indemnification Agreement executed by each director and executive officer of the Company and certain other officers and employees of the Company and its subsidiaries (Incorporated by reference to Exhibit 10.41 filed with the Company's Annual Report on Form 10-K for the fiscal year ended January 3, 2004).     |
| 10.51*            | Form of Amendment to Stock Option Agreements for 1996 Stock Incentive Plan, as amended, and 2001 Stock Plan, as amended (Incorporated by reference to Exhibit 99.3 filed with the Company's Current Report on Form 8-K filed on December 12, 2005).   |
| 10.56*            |   |

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Form of Notice of Grant of Restricted Stock Units to Executive Officer (Incorporated by reference to Exhibit 99.1 filed with the Company's Current Report on Form 8-K filed on February 8, 2007).

10.63\* 2009 Bonus Plan of Lattice Semiconductor Corporation (Incorporated by reference to Exhibit 10.63 filed with the Company's Annual Report on Form 10-K for the fiscal year ended January 3, 2009).

10.66\* Employment Agreement between Lattice Semiconductor Corporation and Byron Milstead effective as of December 30, 2008 (Incorporated by reference to Exhibit 10.66 filed with the Company's Annual Report on Form 10-K filed for the fiscal year ended January 3, 2009).

10.67\* Employment Agreement between Lattice Semiconductor Corporation and Sean Riley dated September 22, 2008 (Incorporated by reference to Exhibit 10.67 filed with the Company's Current Report on Form 10-Q filed on May 8, 2009).

10.69\* Lattice Semiconductor Corporation 2010 Cash Incentive Compensation Plan (Incorporated by reference to Exhibit 10.69 filed with the Company's Annual Report on Form 10-K filed for the fiscal year ended January 2, 2010).

10.70\* Employment Agreement between Lattice Semiconductor Corporation and Darin G. Billerbeck dated as of November 8, 2010 (Incorporated by reference to Exhibit 10.70 filed with the Company's Quarterly Report on Form 10-Q for the quarter ended October 2, 2010).



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|---------|--|
| 10.71*  | Employment Agreement between Lattice Semiconductor Corporation and Joe Bedewi dated as of April 11, 2011. (Incorporated by reference to Exhibit 10.71 filed with the Company's Quarterly Report on Form 10-Q for the quarter ended April 2, 2011).   |
| 10.72*  | Lattice Semiconductor Corporation 2012 Employee Stock Purchase Plan (incorporated by reference to Annex 1 to the Company's Definitive Proxy Statement on Schedule 14A for the 2012 Annual Meeting of Stockholders filed on April 12, 2012).  |
| 10.73   | Agreement and Plan of Merger, dated as of December 9, 2011, by and among Lattice Corp., Lattice Semiconductor, Ltd., a Bermuda exempted company and a wholly owned subsidiary of Lattice Corp., Aff Inv Acquisition Corporation, a Cayman Islands exempted company and a wholly owned subsidiary of Lattice Ltd., SiliconBlue Technologies Ltd., a Cayman Islands exempted company, and Fortis Advisors LLC, as the representative for SiliconBlue's security holders (Incorporated by reference to Exhibit 2.1 filed with the Company's Current Report on Form 8-K filed on December 19, 2011). |
| 10.74*  | Lattice Semiconductor Corporation 2011 Non-Employee Director Equity Incentive Plan as amended May 1, 2013 (Incorporated by reference to Appendix A to the Company's Definitive Proxy Statement on Schedule 14A for the 2013 Annual Meeting of Stockholders filed on March 18, 2013).   |
| 10.75*  | Lattice Semiconductor Corporation 2013 Incentive Plan (Incorporated by reference to Appendix B to the Company's Definitive Proxy Statement on Schedule 14A for the 2013 Annual Meeting of Stockholders filed on March 18, 2013).   |
| 21.1    | Subsidiaries of the Registrant.  |
| 23.1    | Consent of Independent Registered Public Accounting Firm.  |
| 31.1    | Certification of Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended.  |
| 31.2    | Certification of Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended.  |
| 32.1    | Certification of Chief Executive Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.   |
| 32.2    | Certification of Chief Financial Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.   |
| 101.INS | XBRL Instance Document   |
| 101.SCH | XBRL Taxonomy Extension Schema Document  |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document  |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document   |
| 101.LAB | XBRL Taxonomy Extension Labels Linkbase Document   |

101.PRE XBRL Taxonomy Extension Presentation Linkbase Document

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\* Management contract or compensatory plan or arrangement.

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SIGNATURES

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

LATTICE SEMICONDUCTOR CORPORATION  
(Registrant)

/s/ JOE BEDEWI  
JOE BEDEWI  
Corporate Vice President and Chief Financial Officer  
(Duly Authorized Officer and Principal Financial  
and Accounting Officer)

Date: November 5, 2013