LATTICE SEMICONDUCTOR CORP
Form 10-K
March 11, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

(Mark One)

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED JANUARY 1, 2011

or

o 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

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LATTICE SEMICONDUCTOR CORPORATION
(Exact name of registrant as specified in its charter)

Delaware	93-0835214
(State of Incorporation)	(I.R.S. Employer Identification Number)
5555 NE Moore Court	
Hillsboro, Oregon	97124-6421
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (503) 268-8000
Securities registered pursuant to Section 12(b) of the Act:

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(Title of Class)	(Name of each exchange on which registered)
Common Stock, $.01 par value	NASDAQ Global Select Market

Securities registered pursuant to Section 12(g) of the Act: None
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes o No [X]
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
Yes o No [X]
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 [X] No o
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 that the registrant was required to submit and post such files). Yes o No o
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

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 o	Accelerated filer [X]
Non-accelerated filer o	Smaller reporting company o

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

Aggregate market value of voting stock held by non-affiliates of the registrant as of July 2, 2010	$358,228,322
Number of shares of common stock outstanding as of March 10, 2011	118,102,766

DOCUMENTS INCORPORATED BY REFERENCE

The information required by Part III of this Report, to the extent not set forth herein, is incorporated herein by reference from the registrant's definitive proxy statement relating to the 2011 Annual Meeting of Stockholders, which definitive proxy statement shall be filed with the Securities and Exchange Commission within 120 days after the end of the fiscal year to which this Report relates.

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Forward-Looking Statements

This Annual Report on Form 10-K 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: programmable Platform Manager devices being expected to simplify board management design; the growth in popularity of mixed signal PLDs that combine digital and analog features; our plan to introduce new FPGA families; our existing facilities being suitable and adequate for our future needs; the majority of our revenue being through our sell-through distributors; changes to our unrecognized tax benefits and expectations regarding taxes and tax adjustments; our expectations that a significant portion of our revenue will continue to be dependent on the communications end market; the Asian Pacific market being the primary source of our revenue; the impact of new accounting pronouncements; our making significant future investments in research and development; and our beliefs concerning the adequacy of our liquidity and 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 communications equipment end market, particularly as it relates to the concentration of our sales in the Asia Pacific region, market acceptance and demand for our new products, 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 IRS, 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 I 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.

PART I

Item 1. Business.

Lattice Semiconductor Corporation (“Lattice” or the “Company”) designs, develops and markets 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.

Lattice was incorporated in Oregon in 1983 and reincorporated in Delaware in 1985. Our headquarters facility is located at 5555 N.E. Moore Court, Hillsboro, Oregon 97124, our telephone number is (503) 268-8000 and our website can be accessed at www.latticesemi.com. Information contained or referenced on our website is not incorporated by reference into, and does not form a part of, this Annual Report on Form 10-K.

We report based on a 52 or 53-week fiscal year ending on the Saturday closest to December 31. Our fiscal 2010, 2009, 2007 and 2006 were 52-week years and ended January 1, 2011, January 2, 2010, December 29, 2007 and December 30, 2006, respectively. Our fiscal 2008 was a 53-week year and ended on January 3, 2009. Our fiscal 2011 will be a 52-week year and will end on December 31, 2011. All references to quarterly or yearly financial results are references to the results for the relevant fiscal period.

Programmable Logic Market Background

Three principal types of digital integrated circuits are used in most electronic systems: microprocessors, memory and logic. Microprocessors are used for control and computing tasks, memory is used to store programming instructions and data, and logic is employed to manage the interchange and manipulation of digital signals within a system.

Logic circuits are found in a wide range of today's digital electronic equipment, including communications, computing, consumer, industrial, automotive, medical, and military systems. The logic market encompasses general purpose logic semiconductor products, which include programmable logic devices, and application-specific semiconductor products, which include application-specific integrated circuits (“ASICs”) (custom devices for a single user) and application-specific standard products (“ASSPs”) (standardized logic devices marketed to multiple users). According to research from IHS iSuppli[1], the general purpose logic and application-specific semiconductor product categories combined accounted for approximately 37% of the estimated $304 billion worldwide semiconductor market in 2010.

Manufacturers of electronic equipment are challenged to bring differentiated products to market quickly. These competitive pressures often preclude the use of custom-designed ASICs, which generally entail significant design risks, non-recurring expenses and time delays. ASSPs, an alternative to custom designed ASICs, limit a manufacturer's flexibility to adequately customize an end system. Programmable logic addresses this inherent dilemma. Programmable logic is a standard semiconductor product, purchased by systems manufacturers in a “blank” state that can be custom-configured into a virtually unlimited number of specific logic functions by programming the device with electrical signals. Programmable logic gives system designers the ability to quickly create custom logic functions to provide product differentiation without sacrificing rapid time to market.

According to IHS iSuppli[2], the programmable logic market was approximately $4.8 billion in 2010. Within this market, there are two main markets; field programmable gate arrays (“FPGA”) and programmable logic devices (“PLD”), each representing a distinct silicon architectural approach to programmable logic. In 2010, FPGA was a $4.2 billion market[2] while PLD was a $0.6 billion market.[2] Products based on the two alternative programmable logic

architectures are generally best suited for different types of logic functions, although many logic functions can be implemented using either architecture. FPGAs are characterized by a narrow-input logic cell and use a distributed interconnect scheme. FPGAs may also contain dedicated blocks of fixed circuits such as memory, high-speed input/output interfaces or processors. PLDs are traditionally characterized by a regular building block structure of wide-input logic cells, called macrocells, and use a centralized logic interconnect scheme. Although FPGAs and PLDs are typically suited for use in distinct types of logic applications, we believe that a substantial portion of programmable logic customers utilize both FPGA and PLD products. In addition, mixed signal PLDs that combine digital and analog features are growing in popularity.

1 IHS iSuppli, “Competitive Landscaping Tool—Q4 2010,” Nov. 17, 2010

2 IHS iSuppli, “Core Silicon Market Tracker—Q4 2010,” Dec. 23, 2010

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Lattice Products

Lattice actively participates in both the FPGA and PLD (which includes the growing mixed signal PLD) markets. We strive to meet our customers' needs by offering innovative and differentiated solutions that include not only silicon devices, but also design tools and intellectual property. A brief overview of our key products follows.

FPGA Products

In 2002, we entered the FPGA market as a result of our acquisition of the FPGA business of Agere Systems, Inc. During fiscal 2010, 33% of our revenue was derived from FPGA products, compared to 33% in 2009 and 26% in 2008. In the future, we plan to introduce new FPGA families in high-growth market niches where we believe that we have sustainable and differentiated positions.

LatticeECP2M and LatticeECP3 Low-Power High-Value FPGAs

The LatticeECP FPGA family is designed for customers who need FPGAs with digital signal processing (“DSP”), a significant amount of memory, and high-speed serial communications channels ("SerDes"), but do not want to pay the price or power premiums of high end FPGAs. The LatticeECP2M and LatticeECP3 families are able to serve this mid-range market due to careful circuit design choices aimed at achieving lower cost and various architectural enhancements to reduce power consumption.

Introduced in February 2009, the fourth generation LatticeECP3 FPGA family is particularly well suited for deployment in wireless infrastructure and wireline access equipment, as well as video and imaging applications. All four generations of the LatticeECP family are manufactured using our foundry partner Fujitsu Limited's (“Fujitsu”) advanced process technologies.

LatticeXP and LatticeXP2 Non-Volatile FPGAs

Unlike traditional FPGAs that require an external device to load its application program, Lattice's two generations of the non-volatile LatticeXP FPGA family embed a Flash memory block on-chip to store the program. This on-chip program memory offers customers several unique benefits. First, as a single chip solution it enables customers to reduce their board size. Second, without the comparatively long time delay caused by loading a program externally, a customer's equipment can start up much more quickly. We refer to this feature as "instant-on". Finally, because the program is stored on-chip, a customer's IP is more secure from theft. While broadly used across many market segments, we believe that the single-chip, instant-on, and high-security provided by the LatticeXP and LatticeXP2 FPGA families make them particularly attractive for the security, surveillance, and display markets.

Both the LatticeXP and LatticeXP2 families are manufactured using embedded Flash processes co-developed with our foundry partner Fujitsu. The use of embedded Flash for the non-volatile memory enables the LatticeXP and Lattice XP2 families to be re-programmable.

The key features of our selected FPGA families are described in the table below:

FPGA Family	Year Introduced	Process Technology (nm)	Operating Voltage	Logic (K LUTs)	SERDES Channels	Max RAM (Mb)	I/O Pins (#)
LatticeECP3 ™	2009	65	1.2	17-149	4-16	7.2	133-586

LatticeXP2 ™	2007	90	1.2	5-40	—	1.0	86-540

PLD Products

During fiscal 2010, 67% of our revenue was derived from PLD products, compared to 67% in fiscal 2009 and 74% in fiscal 2008. We currently offer the industry's broadest line of PLDs based on our numerous families of ispLSI®, ispMACH,® GAL® and MachXO products.

ispMACH4000 CPLDs

Lattice offers seven versions of the ispMACH4000 in-system programmable CPLD (complex programmable logic device) family. The most recent version, the ispMach4000ZE, is designed for high performance and features an architecture optimized to ensure low power consumption. The ispMach4000ZE devices are offered in ultra-small, space saving packages and are targeted toward handheld and portable equipment.

MachXO and MachXO2 PLD Families

The MachXO and MachXO2 families of versatile non-volatile reconfigurable PLDs are designed for applications traditionally implemented using CPLDs or low-capacity FPGAs. Widely adopted in a broad range of high value, cost sensitive applications that require general purpose I/O expansion, interface bridging and power-up management functions, MachXO and MachXO2 PLDs offer the benefits of increased system integration by providing embedded memory, built-in Phase-locked Loops, high performance Low-voltage Differential Signaling (“LVDS”) I/O, remote field upgrade and a low power sleep mode.

In November 2010, Lattice introduced its MachXO2 PLD family. Built on a low power 65-nm process featuring embedded Flash technology, the MachXO2 family delivers a 3X increase in logic density, a 10X increase in embedded memory, more than a 100X reduction in static power and up to 30% lower cost compared to the MachXO PLD family. In addition, several popular functions used in low-density PLD applications, such as User Flash Memory (UFM), I2C, SPI and timer/counter, have been hardened into the MachXO2 devices, providing designers a “Do-it-All-PLD” for high volume, cost sensitive designs.

Designed for a broad range of low density applications, the MachXO and MachXO2 PLD families are used in a variety of end markets including consumer, communications, computing, industrial and medical.

The key features of our selected PLD families are described in the table below:

PLD Family	Year Introduced	Process Technology (nm)	Operating Voltage	Logic (Macrocells)	I/O Pins (#)
MachXO2	2010	65	3.3/2.5/1.2	128-3,432	18-335
MachXO	2005	130	3.3/2.5/1.8/1.2	128-1,140	73-271
ispMACH 4000ZE	2008	180	1.8	32-256	32-108
ispMACH 4000Z	2003	180	1.8	32-256	32-128

Note: MachXO and MachXO2 implement logic using look-up tables. The figures shown are the macrocell equivalents.

Platform Manager, Power Manager and ispClock Programmable Mixed Signal Devices

As customer equipment grows more complex, their power and clock management problems also become more complex. Our Power Manager and ispClock™ families feature a combination of programmable logic and programmable analog circuitry that allows system designers to reduce system cost and design time by quickly and easily integrating a wide variety of power or clock management functions within a single integrated circuit. These products can replace numerous discrete components, reducing cost and conserving board space, while providing customers with additional design flexibility and time-to-market benefits. The accuracy of our Power Manager products enables more reliable system performance for our customers.

In October 2010, Lattice announced its third-generation mixed-signal devices, the Platform Manager™ family. The programmable Platform Manager devices are expected to simplify board management design significantly by integrating programmable analog and logic to support many common functions, such as power management, digital housekeeping and glue logic. By integrating these support functions, Platform Manager devices can not only reduce the cost of these functions

compared to traditional approaches, but also can improve system reliability and provide a high degree of design flexibility that minimizes the risk of circuit board re-spins.

Software Development Tools and Intellectual Property Cores

Our FPGA and PLD products are supported by the Lattice Diamond™ design environment and the ispLEVER® software development tool suite. Our mixed signal products are supported by PAC-Designer® software. Supporting Windows, UNIX and LINUX platforms, ispLEVER® software allows our customers to easily enter, verify and synthesize a design, perform logic simulation and timing analysis, assign I/O pins, designate critical paths, debug, execute automatic timing-driven place and route tasks, and download a logic and I/O configuration to our devices. Lattice will continue to support its ispLEVER tool suite for FPGA design while transitioning its FPGA customer base to the Diamond design environment.

In June 2010, Lattice announced Version 1.0 of its Lattice Diamond FPGA design software, the new flagship design environment for Lattice FPGA products. Lattice Diamond software provides a complete set of powerful tools, efficient design flows, and modern user interface that enable designers to more quickly target low power, cost sensitive FPGA applications.

Lattice Diamond software enables designers to move quickly to the task at hand because navigation is direct and intuitive. Designers can manage their design view windows through the attach/detach feature. This feature allows the activation of many alternate concurrent design views across the available screen space, yet avoids the clutter that could result without advanced window management. Combined with the extensive cross-probing between Diamond Views, designers can quickly investigate their design implementation's utilization and critical timing.

Lattice Diamond software Version 1.1, announced in November 2010, includes the initial customer beta release of the Lattice Synthesis Engine (LSE). With support initially for the MachXO2 and MachXO PLD families, LSE gives those users an additional choice of synthesis tool for design exploration. LSE supports both Verilog and VHDL languages and uses SDC format for constraints. It is integrated into the Lattice Diamond 1.1 design environment as a synthesis tool choice.

Synopsys' Synplify Pro advanced FPGA synthesis is included for all operating systems supported, and Aldec's Active-HDL Lattice Edition II simulator is included for Windows. In addition to the tool support for Lattice devices provided by the OEM versions of Synplify Pro and Active-HDL, Lattice devices are also supported by the full versions of Synopsys Synplify Pro and Aldec Active-HDL. Mentor Graphics ModelSim SE and Precision RTL synthesis also support the latest Lattice devices, such as the LatticeECP3 FPGA family.

Lattice's IP core program (ispLeverCore™) assists our customers' design efforts by providing pre-tested, reusable functions that can be easily utilized, allowing our customers to focus on their unique system architectures. These IP cores eliminate the need to “re-invent the wheel” by providing many industry-standard functions, including PCI Express, DDR, Ethernet, CPRI, OBSAI, 7:1 LVDS, and embedded microprocessors.

Product Development

We place substantial emphasis on new product development and believe that continued investment in this area is required to maintain and improve our competitive position. Our product development activities emphasize new proprietary products, advanced packaging, enhancement of existing products and process technologies, and improvement of software development tools. Product development activities occur in Hillsboro, Oregon; San Jose, California; Downers Grove, Illinois; Bethlehem, Pennsylvania; and Shanghai, China.

Research and development expenses were $60.3 million in 2010, $56.1 million in 2009 and $68.6 million in 2008. While we expect to continue to make significant future investments in research and development, we streamlined and consolidated our research and development process in the third quarter of 2008, the impact of which is reflected in Restructuring charges. During the third and fourth quarters of 2009, we took steps to better align operating expenses with revenue expectations and in connection with the establishment of our operations center in Singapore, which primarily relates to supply chain activities. (See discussion under “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations”).

Operations

We do not manufacture our own silicon products. We maintain strategic relationships with large semiconductor foundries to source our finished silicon wafers. This strategy allows us to focus our internal resources on product and market development, and eliminates the fixed cost of owning and operating semiconductor manufacturing facilities. We are also able to

take advantage of the ongoing advanced process technology development efforts of semiconductor foundries.

The Company and Fujitsu Limited (“Fujitsu”) have entered into agreements pursuant to which Fujitsu manufactures most of our new products on its 130 nanometer, 90 nanometer and 65 nanometer CMOS process technologies, as well as on 130 nanometer, 90 nanometer and 65 nanometer technologies with embedded flash memory that we have jointly developed with Fujitsu. Fujitsu is our sole source supplier of wafers for our newest FPGA and PLD products.

In addition, all of our assembly operations and most of our test operations are performed by outside suppliers.

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. During December 2009, we adopted a restructuring plan under which we established an operations center and transferred a portion of our supply chain support activities from our headquarters in Oregon to the new operations center in Singapore in 2010.

We perform certain test operations and reliability and quality assurance processes internally. We have achieved and maintained ISO9001:2000 Quality Management Systems Certification and ISO16949:2002 Quality Systems Certification, and released a full line of PLD products qualified to the AEC-Q100 Reliability Standard.

Wafer Fabrication

We source silicon wafers from our foundry partners, Fujitsu Semiconductor Limited in Japan, Seiko Epson Corporation in Japan, United Microelectronics Corporation in Taiwan and GLOBALFOUNDRIES in Singapore, pursuant to agreements with each company and their respective affiliates. We negotiate wafer volumes, prices and other terms with our foundry partners and their respective affiliates on a periodic basis.

Assembly

After wafer fabrication and initial testing, we ship wafers to independent subcontractors for assembly. During assembly, wafers are separated into individual die and encapsulated in plastic or ceramic packages. Presently, we have qualified assembly partners in Indonesia, Japan, Malaysia, Taiwan, the Philippines, Singapore and South Korea. We negotiate assembly prices, volumes and other terms with our assembly partners and their respective affiliates on a periodic basis.

We currently offer an extensive list of standard products in lead (Pb) free packaging. Our lead-free products meet the European Parliament Directive entitled “Restrictions on the use of Hazardous Substances.” A select and growing subset of our ROHS compliant products are also offered with a "Halogen Free" material set.

Testing

We electrically test the die on each wafer prior to shipment for assembly. Following assembly, prior to customer shipment, each product undergoes final testing and quality assurance procedures. Wafer sort testing is performed by independent contractors in Malaysia, Japan, Singapore and at our Oregon facility. Final testing is performed by independent contractors in Indonesia, Malaysia, the Philippines, Singapore, South Korea, and at our Oregon facility.

Marketing, Sales and Customers

We sell our products directly to end customers through a network of independent manufacturers' representatives and indirectly through a network of independent sell-in and sell-through distributors. We also employ a direct sales

management and field applications engineering organization to support our end customers and indirect sales resources. Our end customers are primarily original equipment manufacturers in the communications, computing, consumer, industrial, automotive, medical and military end markets.

We have agreements with 17 manufacturers' representatives and three primary distributors; Arrow Electronics, Inc., including Nu Horizon Electronics Corp., (wholly owned subsidiary of Arrow Electronics, Inc.), Avnet Inc., distributors of the Weikeng Group (Weikeng Industrial Co. Ltd. (Taiwan) and Weikeng International Co. Ltd. (Hong Kong)). We have also established export sales channels in over 50 foreign countries through a network of over 15 sales representatives and distributors. The majority of our sales are made through distributors.

Orders from our sell-through distributors are initially recorded at published list prices; however, for a majority of our

sales, the final price is set at the time of resale and is determined in accordance with a distributor price agreement. In addition, we allow returns from sell-through distributors of unsold products under certain conditions. For these reasons, we do not recognize revenue until products are resold by sell-through distributors to an end customer. At times, we protect our sell-through distributors against reductions in published list prices.

We provide technical and marketing support to our end customers with engineering staff based at our headquarters, product development centers and selected field sales offices. We maintain numerous domestic and international field sales offices in major metropolitan areas.

Export sales as a percentage of our total revenue were 88%, 85% and 83% in fiscal 2010, 2009 and 2008, respectively. Export sales to China accounted for 42%, 43% and 28% of revenue in fiscal 2010, 2009 and 2008, respectively, to Europe accounted for 18%, 17% and 21% of revenue in fiscal 2010, 2009 and 2008, respectively, to Japan accounted for 13%, 10% and 14% of revenue in fiscal 2010, 2009 and 2008, respectively, and to Taiwan accounted for 3%, 3% and 9% of revenue in fiscal 2010, 2009 and 2008, respectively. Both export and domestic sales are denominated in U.S. dollars, with the exception of sales to Japan, where sales to certain customers are denominated in yen.

Our largest customers are distributors and have historically made up a significant portion of our total revenue. Revenue attributable to resales of products by Arrow Electronics, Inc., including its wholly-owned subsidiary Nu Horizons Electronics Corp. accounted for approximately 18%, 12% and 14% of revenue in fiscal years 2010, 2009 and 2008, respectively. Revenue attributable to resales of products by Avnet, Inc. accounted for approximately 17%, 13% and 14% of revenue in fiscal years 2010, 2009 and 2008, respectively. Revenue attributable to resales of products by the Weikeng Group (Weikeng Industrial Co. Ltd. (Taiwan) and Weikeng International Co. Ltd. (Hong Kong)) accounted for approximately 14%, 9% and 0% of revenue in fiscal years 2010, 2009 and 2008, respectively. Sales of products to Promaster Technology Corporation accounted for approximately 0%, 1% and 10% of revenue in fiscal years 2010, 2009 and 2008, respectively. Sales of products to ASTI Holdings Ltd. accounted for approximately 0%, 16% and 7% of revenue in fiscal years 2010, 2009 and 2008, respectively. No other individual customer accounted for more than 10% of total revenue in any of the fiscal years 2010, 2009 and 2008.

During fiscal 2009, the Company embarked on a program to restructure its distribution channels, primarily in the Asia Pacific region, from a sell-in to a sell-through distribution model. As a result the majority of our revenue in fiscal 2010 was from resale of our products by sell-through distributors. In connection with this program, Lattice terminated our distribution agreement between Lattice and Promaster Technology Corporation on July 2, 2009, between Lattice and Dragon Technology Distribution and FE Global Electronics effective for various territories on February 1 and February 6, 2010, respectively, and between Lattice and other distributors effective on various dates. Dragon Technology Distribution and FE Global Electronics are wholly-owned subsidiaries of ASTI Holdings Ltd. Resale of product by sell-through distributors as a percentage of our total revenue was 56%, 38% and 33% in fiscal years 2010, 2009 and 2008, respectively.

Seasonality

In most years, we experience some seasonal trends in the sale of our products. Sales of our products are often stronger in the first half of the year and often weaker in the summer months. In addition, December is often a weak month for sales. However, on balance, general economic conditions and the cyclical nature of the semiconductor industry have a greater impact on our business and financial results than seasonal trends.

Backlog

Our backlog of scheduled and released orders at January 1, 2011 was $97.1 million, as compared to $84.9 million at January 2, 2010. This backlog consisted of direct customer and distributor orders (which includes orders to

sell-through distributors valued at published list prices) scheduled for delivery within the next 90 days. The increase in backlog is primarily related to improved business conditions. Direct customer orders and sell-in distributor orders may be changed, rescheduled or canceled under certain circumstances without penalty prior to shipment. Revenue associated with direct customers and sell-in distributors is recognized upon shipment. Sell-through distributor orders accounted for the majority of the backlog at fiscal year end 2010 and 2009. These orders are valued at list price and are subject to price adjustments. Therefore, the majority of our backlog is substantially higher than the price ultimately recognized as revenue. Revenue associated with sell-through distributor shipments is not recognized until the product is resold to an end customer. Typically, a significant amount of our revenue results from orders placed and filled within the same period. Such orders are referred to as “turns orders.” By definition, turns orders are not captured in a backlog measurement made at the beginning of a period. For these reasons, backlog as of any particular date should not be used as a predictor of revenue for any future period.

Competition

The semiconductor industry is intensely competitive and characterized by rapid rates of technological change, product obsolescence and price erosion. Our current and potential competitors include a broad range of semiconductor companies from emerging companies to large, established companies, many of which have greater financial, technical, manufacturing, marketing and sales resources than we do.

The principal competitive factors in the programmable logic market include silicon and software product features, price, technical support, sales, marketing and distribution strength. The availability of competitive intellectual property cores is also critical. In addition to product features such as density, performance, power consumption, re-programmability, and reliability, competition occurs on the basis of price and market acceptance of specific products and technology. We intend to continue to address these competitive factors by working to continually introduce product enhancements and new products and by reducing the manufacturing cost of our products.

We compete directly with Actel Corporation (acquired by Microsemi Corporation in November 2010), Altera Corporation and Xilinx, Inc. We also indirectly compete with other semiconductor companies that provide logic solutions that are not user programmable that offer products based on alternative solutions such as ASIC, ASSP, microcontroller, analog and DSP technologies. Although to date we have not experienced direct competition from companies located outside the United States, such companies may become a more significant competitive factor in the future. Competition may also increase if other larger semiconductor companies seek to expand into our market. Any such increases in competition could have a material adverse effect on our operating results.

Intellectual Property

We seek to protect our products and technologies primarily through patents, trade secrecy measures, copyrights, mask work protection, trademark registrations, licensing restrictions, confidentiality agreements and other approaches designed to protect proprietary information. There can be no assurance that others may not independently develop competitive technology not covered by our intellectual property rights or that measures we take to protect our technology will be effective.

Patents

We hold numerous domestic, European and Asian patents and have patent applications pending in the United States, Europe and Asia. Our current patents will expire at various times between 2010 and 2029. There can be no assurance that pending patent applications or other applications that may be filed will result in issued patents, or that any issued patents will survive challenges to their validity. Although we believe that our patents have value, there can be no assurance that our patents, or any additional patents that may be issued in the future, will provide meaningful protection from competition. We believe that our success will depend primarily upon the technical expertise, experience, creativity and the sales and marketing abilities of our personnel.

Patent and other proprietary rights infringement claims are common in our industry. There can be no assurance that, with respect to any claim made against us, that we would be able to successfully defend against the claim or that we could obtain a license that would allow us to use the proprietary rights on terms or under conditions that would not harm our business.

Licenses and Agreements

Advanced Micro Devices

In 1999, as part of our acquisition of Vantis Corporation, a wholly owned subsidiary of Advanced Micro Devices, Inc. (“AMD”), we entered into an agreement with AMD pursuant to which we have cross-licensed Vantis patents with AMD patents, having an effective filing date on or before June 15, 1999, related to programmable logic products. This cross-license was made on a worldwide, non-exclusive and royalty-free basis. Additionally, as part of our acquisition of Vantis, we acquired certain third-party license rights held by Vantis prior to the acquisition.

Agere Systems

In 2002, as part of our acquisition of the FPGA business of Agere Systems, Inc., we entered into an intellectual property agreement with Agere and Agere Systems Guardian Corporation. Pursuant to this agreement, these Agere companies assigned or licensed to us certain FPGA and Field Programmable System Chip patents, trademarks, software and other intellectual property rights and technology, and we licensed back rights in these same assets. These cross-licenses were made

on a worldwide, non-exclusive and royalty-free basis.

Altera

In 2001, we entered into a comprehensive, royalty-free, non-exclusive patent cross-license agreement and a multi-year patent peace agreement with Altera.

Fujitsu

On September 10, 2004, we entered into an Advance Payment and Purchase Agreement (the “Agreement”) with Fujitsu Limited (“Fujitsu”), pursuant to which we advanced $125.0 million in support of the development and construction of a 300mm wafer fabrication facility in Mie, Japan. As of March 31, 2007, we had completed the unsecured advance payments.

During the third quarter of fiscal 2006 and third quarter of fiscal 2007, we entered into amendments (“Amendments”) to the Agreement, prior to which our $125.0 million advance was to be credited against the purchase price of 300mm wafers received from Fujitsu. The Amendments permitted us to also credit the advance against the purchase price of 200mm wafers and other services (collectively, wafer credits and other services are referred to as “advance credits”), including engineering mask set charges.

Under the terms of a letter agreement between the Company and Fujitsu, Fujitsu agreed to repay in cash to the Company $60.0 million, plus interest, which was received in fiscal 2009 on the outstanding portion of the Advance Payment made by us to Fujitsu under the terms of the Agreement. In addition, we received the remaining advance of approximately $11.5 million in the form of advance credits, including engineering mask set charges, as of the end of the third quarter of the Company's fiscal 2010.

All other terms and conditions of the Agreement remained in full force and effect until repayment of the Advance Payment was received in full.

Employees

At January 1, 2011, we had 749 full-time employees. We believe that our future success will depend, in part, on our ability to continue to attract and retain highly skilled technical and management personnel. No employee is subject to a collective bargaining agreement. We have never experienced a work stoppage and consider our employee relations to be good.

Executive Officers of the Registrant

The following individuals currently serve as our executive officers:

Name	Age	Position
Darin G. Billerbeck	51	President, Chief Executive Officer and Director
Michael G. Potter	44	Corporate Vice President and Chief Financial Officer
Byron W. Milstead	54	Corporate Vice President, General Counsel and Secretary
Christopher M. Fanning	48	Corporate Vice President and General Manager, Low Density Solutions & Mixed Signal Solutions
Sean Riley	42	Corporate Vice President and General Manager, High Density Solutions

Darin G. Billerbeck joined the Company as President and Chief Executive Officer on November 8, 2010. Prior to joining the Company, Mr. Billerbeck served as the Chief Executive Officer of Zilog, a microcontroller manufacturer, which was acquired by IXYS Corporation in February 2010. Prior to joining Zilog in January 2007, Mr. Billerbeck served 18 years in various executive and management positions at Intel Corporation, including as Vice President and General Manager of Intel's Flash Products Group from 1999 to 2007.

Michael G. Potter joined the Company on February 17, 2009. Prior to joining the Company, Mr. Potter served as the Senior Vice President and Chief Financial Officer of Neophotonics, Inc. from May 2007 to January 2009. Mr. Potter served as Senior Vice President and Chief Financial Officer of STATS ChipPac Ltd. from August 2004 to May 2007. Before the merger

of STATS and ChipPac in August 2004, Mr. Potter served as Acting Chief Financial Officer of ChipPac, Inc. Mr. Potter also held senior positions at Honeywell International, Inc. and started his career with KPMG Peat Marwick Thorne. Mr. Potter is a member of the Board of Directors for Canadian Solar Inc.

Byron W. Milstead joined the Company in May 2008 as Corporate Vice President and General Counsel. Prior to joining the Company, Mr. Milstead served as Senior Vice President and General Counsel of Credence Systems Corporation from December 2005 to May 2008. Mr. Milstead served as Vice President and General Counsel of Credence Systems Corporation from November 2000 until December 2005. Prior to joining Credence Systems Corporation, Mr. Milstead practiced law at the Salt Lake City office of Parsons Behle & Latimer and the Portland offices of both Bogle and Gates and Ater Wynne.

Christopher M. Fanning joined the Company in 1997 and was promoted to Corporate Vice President and General Manager, Low Density Solutions & Mixed Signal Solutions in 2008. Previously, he managed Lattice's software, intellectual property and technical support businesses as Corporate Vice President, Enterprise Solutions. He also served as Vice President of Strategic Planning. Prior to joining the Company, Mr. Fanning was employed by The Boston Consulting Group.

Sean Riley joined the Company in September 2008. Prior to joining the Company, Mr. Riley was Vice President of Marketing for MathStar from April 2005 to May 2008, a programmable logic startup company. Mr. Riley joined MathStar from Intel Corporation, where he worked from June 1992 to April 2005 in various marketing, engineering and general management roles.

Available Information

We make available, free of charge through our Investor Relations portion of our website at www.latticesemi.com, our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, proxy statements and amendments to those reports and statements as soon as reasonably practicable after such materials are electronically filed with, or furnished to, the SEC. You may also obtain free copies of these materials by contacting our Investor Relations Department at 5555 N.E. Moore Court, Hillsboro, Oregon 97124-6421, telephone (503) 268-8000. Our SEC filings are also available at the SEC's website at www.sec.gov.

Item 1A. Risk Factors

The following risk factors and other information included in this Annual Report 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.

Global economic conditions and uncertainty, as well as the highly cyclical nature of the semiconductor industry, could adversely affect our revenue, gross margin and expenses, collectability of accounts receivable and supplier relationships, and ability to access capital markets.

Our revenue and gross margin can fluctuate significantly due to downturns in the general economy or the semiconductor industry. These downturns are often severe and prolonged and can result in significant reductions in the demand for PLD and FPGA products in markets in which we compete. Global economic weakness or cyclical downturns have previously resulted from periods of economic recession, reduced access to credit markets, weakening or strengthening of the U.S. dollar relative to other currencies, weak end-user demand, excess industry capacity,

political instability, terrorist activity, military actions, or general reductions in inventory levels by customers, and may cause a decrease in revenue, gross margin, earnings or growth rates and problems with our ability to manage inventory levels and collect customer receivables. Such economic conditions had a negative impact on our results of operations during much of 2009. Although business conditions improved in 2010, that trend may not continue. In addition, our relationships with our employees and suppliers and ability to access capital markets could be adversely affected. In addition, customer financial difficulties have previously resulted, and could result in the future, in increases in bad debt write-offs and additions to reserves in our accounts receivable. Global economic and cyclical downturns also may lead to restructuring actions and associated expenses. 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.

A downturn in the communications equipment end market could cause a reduction in demand for our products and limit our ability to maintain revenue levels and operating results.

The majority of our revenue (approximately 49% of fiscal 2010 revenue) is derived from customers participating in the communications equipment end market. In addition, during fiscal year 2009, the Company participated in the China 3G telecommunications network build-out by selling products used by two large telecommunication equipment providers (one of which was supported through distribution), which accounted for a combined 19% of our aggregate revenue. This is primarily due to strength in the wireless segment of the communications end market. For the 2010 fiscal year, the same two large telecommunication equipment providers accounted for a combined 12% of revenue. 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 networks for 4G networks in which we compete. Any deterioration in the communication end market, our ability to compete for new solutions in future telecommunications solutions (e.g. 4G networks) or reduction in capital 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.

Our customer design-in activity, and thus, future revenue growth is dependent on market acceptance of our new silicon and software design tool products and the continued market acceptance of our current products. Future revenue is inherently uncertain and could impact our ability to manage production or our ability to forecast sales.

We face uncertainties relating to the potential impact of customer design-in activity because it is unknown whether any particular customer design-in will ultimately result in sales of significant volume. After a specific customer design-in is obtained, many factors can impact the timing and amount of sales that are ultimately realized. Changes in the competitive position of our technology, the customer's product competitiveness or product strategy, the financial position of the customer, and other factors can impact the timing and amount of sales ultimately realized from any specific customer design-in.

We are presently shipping our latest generation FPGA, PLD and Programmable Mixed Signal product families that are critical to our ability to grow our overall revenue. We also plan to continue upgrading our customer design tool products and increase our offerings of intellectual property cores. Our future revenue growth is dependent on customer design-in activity, market acceptance of our new silicon and software design tool products and the continued market acceptance of our current products. The success of these products is dependent on a variety of specific technical factors including:

- successful product definition;
- timely and efficient completion of product design;
- timely and efficient implementation of wafer manufacturing and assembly processes;
- product performance;
- product cost;
- the quality and reliability of the product; and
- ease of use.

If, due to these or other factors, our new silicon and software products do not achieve market acceptance, or our current products do not maintain market acceptance, our ability to manage production levels or accurately forecast the future revenue, our operating results may be adversely affected.

We may not be able to successfully compete in the highly competitive semiconductor industry.

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 Actel Corporation (acquired by Microsemi Corporation in November 2010), Altera Corporation, and Xilinx, Inc. We also compete indirectly with numerous semiconductor companies that offer products based on alternative solutions such as ASIC, ASSP, microcontroller, analog, and digital signal processing (DSP) technologies. These direct and indirect competitors are established, multinational semiconductor companies as well as emerging companies. If we are unable to compete successfully in this environment, our future results will be adversely affected.

Our revenue and gross margin, including quarter over quarter, are subject to fluctuations due to many factors which makes our future financial results less predictable.

Our operating results, including quarter over quarter, have fluctuated in the past and may continue to fluctuate. Consequently, our operating results may fail to meet the expectations of analysts and investors. Our revenue and gross margin may fluctuate due to product mix, inventory fluctuations at our distributor end customers, market acceptance of new products, competitive pricing dynamics, geographical and market-segment pricing strategies, wafer, package and assembly prices and yields, overhead absorption, as well as provisions for warranty and excess and obsolete inventory.

We have limited ability to foresee changes or the pace of changes in sales by product classification. In the past we have also experienced periods of decline in sales of our mainstream and mature products. If, in any period, sales of our mature and mainstream products decline and sales of new products do not increase at a rate that is sufficient to counteract this decline, then our total revenue would decline. In addition, as mature products typically generate a higher gross margin than mainstream or new products, a faster than normal decline in sales of mature products could adversely impact our gross margins.

We also have experienced, and may experience in the future, gross margin declines in certain products, reflecting the effect of competitive pricing pressures, inventory write-downs, charges associated with the cancellation of planned production lines, costs associated with our customers unplanned demand to build inventory, and increases in component and manufacturing costs resulting from higher labor and material costs borne by our manufacturers and suppliers that, as a result of competitive pricing pressures or other factors, we are unable to pass on to our customers.

Further, our ability to predict end customer demand, our customers' end customer demand, and resale of our products by our sell-through distributors is limited. Typically, a significant amount of our revenue comes from “turns orders,” which are orders placed and filled within the same period. By definition, turns orders are not captured in a backlog measurement at the beginning of a quarter. Accordingly, we cannot use backlog as a reliable measure of predicting revenue.

Currently Fujitsu Semiconductor Limited ("Fujitsu") is our sole source supplier of wafers for our newest FPGA and PLD products. We may be unsuccessful in defining, developing and identifying manufacturing processes for the new programmable logic products required to maintain or expand our business.

As a semiconductor company, we operate in a dynamic environment marked by rapid product obsolescence. The programmable logic market is characterized by rapid technology and product evolution. Consequently, our future success depends on our ability to introduce new FPGA, PLD and associated software design tool products that meet evolving customer needs while achieving acceptable margins. We are presently shipping our latest generation product families that are critical to our ability to grow our overall revenue. We also plan to continue upgrading our customer design tool products and increase our offerings of intellectual property cores. If we fail to introduce new products in a timely manner, or if these products or future new products fail to achieve market acceptance, our operating results could be adversely affected.

The Company and Fujitsu have entered into agreements pursuant to which Fujitsu manufactures most of our new products on its 130 nanometer, 90 nanometer and 65 nanometer CMOS process technologies, as well as on 130, 90 and 65 nanometer technologies with embedded flash memory that we have jointly developed with Fujitsu. Fujitsu is our sole source supplier of wafers for our newest FPGA and PLD products. The success of certain of our next generation products is dependent on our ability to successfully partner with Fujitsu or new foundry partners. If for any reason we are unsuccessful in establishing new foundry relationships for our next generation products, our future

operating results could be adversely affected.

To develop new products and maintain the competitiveness of existing products, we need to migrate to more advanced wafer manufacturing processes that use smaller device geometries. We also may need to use additional foundry partners. Because we depend upon foundry partners to provide their facilities and support for our process technology development, we may experience delays in the availability of advanced wafer manufacturing process technologies at existing or new wafer fabrication facilities. As a result, volume production of our advanced process technologies at fabrication facilities may not be achieved. This could adversely affect our operating results.

The introduction of new silicon and software design tool products in a dynamic market environment presents significant business challenges. Product development commitments and expenditures must be made well in advance of product sales. The market acceptance of new products depends on accurate projections of long-term customer demand, which by their nature are uncertain. 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. 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 and may, depending on the price at which the equity is sold, result in dilution.

Export sales, primarily to the Asia Pacific region, account for the majority of our revenue and may decline in the future due to economic and governmental uncertainties.

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

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

We depend on distributors, primarily those that use the sell-through distribution model, to generate a majority of our sales and complete order fulfillment. The failure of our distributors to sell our products and otherwise perform as expected could materially reduce our future sales.

We rely heavily on our distribution partners to sell our products to end customers, generate a majority of our sales, complete order fulfillment and stock our products. Our distributors also help us to provide technical support and other value-added services to end customers.

During fiscal 2009, the Company embarked on a program to restructure its distribution channels, primarily in the Asia Pacific region, from a sell-in to a sell-through distribution model. The sell-in distribution model allows the Company to recognize revenue upon shipment to the distributor. In the sell-through distribution model, distributors have price protection and rights of return on unsold merchandise. Consequently, revenue is recognized upon resale to an end customer. We expect that the majority of our revenue in fiscal 2011 will be reported resale by our sell-through distributors. We depend on the timeliness and accuracy of these resale reports from our distributors; late or inaccurate resale reports could have a detrimental effect on our ability to recognize revenue and our ability to predict future sales. In addition, our distribution channels recently have experienced consolidation due to merger and acquisition activity in that business sector. Consolidation may result in our distributors allocating fewer resources to the distribution and sale of our products, which could adversely affect our financial results.

Our primary sell-through distributors, Arrow Electronics, Inc., including Nu Horizons Electronics Corp., (a wholly owned subsidiary of Arrow Electronics, Inc. USA), Avnet, Inc., and Weikeng (International and Industrial) Co. LTD made up 49%, 34% and 28 % of total revenue for fiscal years 2010, 2009 and 2008, respectively. At times, our sales are concentrated in a small number of distributors, which are in various international locations and of various financial strength. Financial difficulties, inability to access capital markets, or other reasons, may affect our distributors' performance, which could materially harm our business and our operating results. Additionally, any reduction in sales

efforts, failure to provide good customer service or any other failure to perform by our distributors as expected, could materially reduce our future sales and adversely affect our operating results.

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 increased engineering expenses necessary to remediate the defect and also result in 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 material increases in product defects, the costs to remediate such defects, net of reimbursed amounts from our vendors, if any, or to resolve warranty claims compared with our historical experience, may adversely affect our revenue, gross margins and net income.

If our foundry partners experience quality or yield problems, we may face a shortage of products available for sale and our revenue or gross margin could be adversely affected.

We depend on our foundry partners to deliver high quality silicon wafers with acceptable yields in a timely manner consistent with our safety stock inventory level and production plan. As is common in our industry, we have experienced wafer yield problems and delivery delays. The reliable manufacture of high performance programmable logic devices is a complicated and technically demanding process requiring:

- a high degree of technical skill;
- state-of-the-art equipment;
- the availability of certain basic materials and supplies, such as chemicals, gases, polysilicon, silicon wafers and ultra-pure metals;
- the absence of defects in production wafers;
- the elimination of minute impurities and errors in each step of the fabrication process; and
- effective cooperation between the wafer supplier and us.

As a result, our foundry partners may periodically experience difficulties in achieving acceptable quality and yield levels when manufacturing our silicon wafers. If our foundry partners are unable for a prolonged period to produce silicon wafers that meet our specifications with acceptable yields, or we do not have adequate safety stock in times of delivery delays, our operating results could be adversely affected.

If our assembly and test supply contractors experience quality or yield problems, we may face a shortage of products available for sale.

We rely on contractors to assemble and test our devices with acceptable quality and yield levels. As is common in our industry, we have experienced quality and yield problems in the past. The majority of our revenue is derived from semiconductor devices assembled in advanced packages. The assembly of advanced packages is a complex process requiring:

- a high degree of technical skill;
- state-of-the-art equipment;
- the absence of defects in assembly and packaging manufacturing;
- the elimination of raw material impurities and errors in each step of the process; and
- effective cooperation between the assembly contractor and us.

As a result, our contractors may experience difficulties in achieving acceptable quality and yield levels when assembling and testing our semiconductor devices. If we experience prolonged quality or yield problems in the future and we do not have adequate levels of safety stock inventory on-hand, our operating results could be adversely affected.

If we are unable to adequately protect our intellectual property rights, our financial results and competitive position may suffer.

Our success depends in part on our proprietary technology. We intend to continue to protect our proprietary technology through patents, copyrights and trade secrets. Despite this intention, we may not be successful in achieving adequate protection. Claims allowed on any of our patents may not be sufficiently broad to protect our technology. Patents issued to us also may be challenged, invalidated or circumvented. Finally, our competitors may develop competing technologies. If any of these events occur, our competitive position could be adversely affected.

Companies in the semiconductor industry vigorously pursue and defend their intellectual property rights. We may be forced to pursue legal action to protect or enforce our intellectual property rights. If we become involved in protracted intellectual property disputes or litigation we may be forced to use substantial financial and management resources, which could have an adverse affect on our operating results.

We face a number of patent infringement claims and may be subject to other intellectual property disputes, which could require us to spend a significant sum to defend and could cause losses.

Our industry is characterized by frequent claims regarding patents and other intellectual property rights of others. We have been, and from time to time expect to be, notified of claims that we are infringing upon the intellectual property rights of others. For instance, we are exposed to certain asserted and unasserted potential claims, including the pending patent litigation brought against us by Lizy K. John, Stragent and SeeSaw, Intellitech and Intellectual Ventures I LLC and Intellectual Ventures II LLC, as described in Item 3. Legal Proceedings, above. If any third party makes a valid claim against us, we could face significant liability and could be required to make material changes to our products and processes. In response to any claims of infringement, there can be no assurance that we would be able to successfully defend against the claims. Any such litigation could result in a substantial diversion of our efforts and the use of substantial management and financial resources, which by itself could have a material adverse effect on our financial condition and operating results. We may seek licenses under patents that we are alleged to be infringing; however, we may not be able to obtain a license on favorable terms, or at all, which could have an adverse effect on our operating results.

Our wafer supply, which is sourced entirely from the Asia Pacific region, could be interrupted, could experience increased costs or could be reduced, which may result in a shortage of products available for sale or increased costs.

We do not manufacture finished silicon wafers and most of our products, including all of our newest products, are manufactured by a sole source. Currently, our silicon wafers are manufactured by Fujitsu in Japan, Seiko Epson Corporation in Japan, United Microelectronics Corporation in Taiwan and GLOBALFOUNDRIES in Singapore. If any of our current or future foundry partners significantly interrupts or reduces our wafer supply, increases wafer costs, or if any of our relationships with our partner suppliers are terminated, our operating results could be adversely affected.

In the past, we have experienced delays in obtaining wafers and in securing supply commitments from our foundry partners. At present, we anticipate that our supply commitments are adequate. However, these existing supply commitments may not be sufficient for us to satisfy customer demand in future periods. Additionally, notwithstanding our supply commitments, we may still have difficulty in obtaining wafer deliveries consistent with the supply commitments. We negotiate wafer prices and supply commitments from our suppliers on at least an annual basis. If any of our foundry partners were to reduce its supply commitment or increase its wafer prices, and we cannot find alternative sources of wafer supply, our operating results could be adversely affected.

Many other factors that could disrupt our wafer supply are beyond our control. Since worldwide manufacturing capacity (and that of Fujitsu) for silicon wafers is limited and inelastic, we could be harmed by significant industry-wide (or our own) increases in overall wafer demand or interruptions in wafer supply, or periods of increased wafer prices. During periods of economic uncertainty, our foundry partners may reduce or restructure their operations which may also affect the availability and price of wafers, and adversely affect our operating results. Additionally, a future disruption of any of our foundry partners' foundry operations as a result of a fire, earthquake, act of terrorism, political unrest, governmental uncertainty, war, disease or other natural disaster or catastrophic event could disrupt our wafer supply and could adversely affect our operating results.

Our supply of assembled and tested products, all from the Asia Pacific region, could be interrupted or reduced, which may result in a shortage of products available for sale.

We do not assemble our finished products or perform all testing of our products. Our finished silicon wafers are assembled and tested by independent contractors located in Indonesia, Japan, Malaysia, the Philippines, Singapore and South Korea. Economic, financial, social and political conditions in Asia have historically been volatile. Financial

difficulties, the effects of currency fluctuation, governmental actions or restrictions, prolonged work stoppages, political unrest, war, natural disaster, disease or any other difficulties experienced by our suppliers may disrupt our supply and could adversely affect our operating results.

In the past, we have experienced delays in obtaining assembled and tested products and in securing assembly and test capacity commitments from our suppliers. At present, we 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. Additionally, notwithstanding our assembly and test capacity commitments, we may still have difficulty in obtaining deliveries of finished products consistent with the capacity commitments. We negotiate assembly and test prices and capacity commitments from our contractors on a periodic basis. If any of our assembly or test contractors were to reduce its capacity commitment or increase its prices, and we cannot find alternative sources, our operating results could be adversely affected.

Many other factors that could disrupt our supply of finished products are beyond our control. Because worldwide capacity for assembly and testing of semiconductor products is limited and inelastic, we could be harmed by significant industry-wide increases in overall demand or interruptions in supply. The assembly of complex packages requires a consistent supply of a variety of raw materials such as substrates, lead frames and mold compound. The worldwide manufacturing capacity for these materials is also limited and inelastic. A significant industry-wide increase in demand, or interruptions in the supply of these materials to our assembly or test contractors, could adversely effect our operating results. Additionally, a future disruption of any of our assembly or test contractors' operations as a result of a fire, earthquake, act of terrorism, political unrest, governmental uncertainty, war, disease or other natural disaster or catastrophic event could disrupt our supply of assembled and tested devices and could adversely affect our operating results.

In addition, our quarterly revenue levels may be affected to a significant extent by our ability to match inventory and current production mix with the product mix required to fulfill orders. The large number of individual parts we sell and the large number of customers for our products, combined with limitations on our and our customers' ability to forecast orders accurately and our relatively lengthy manufacturing cycles, may make it difficult to achieve a match of inventory on hand, production units, and shippable orders sufficient to realize quarterly or annual revenue projections.

We may experience a disruption of our business activities due to the transition to a new Chief Executive Officer.

On October 12, 2010, the Company's Board of Directors announced the appointment of Darin G. Billerbeck as the Company's President and Chief Executive Officer, effective November 8, 2010. We may experience disruption in our business activities as we transition to a new chief executive officer, and our relationships with employees, customers and suppliers could be adversely affected by these disruptions. In addition, our competitors may seek to use this transition and the related potential disruptions to gain a competitive advantage over us. Our future operating results depend substantially upon the continued service of our key personnel and in significant part upon our ability to attract and retain qualified management personnel. Our business, financial condition and results of operations could be materially adversely affected by the loss of any of our key employees, by the failure of any key employee to perform in his or her current position, or by our inability to attract and retain skilled employees.

We may fail to retain or attract the specialized technical and management personnel required to successfully operate our business.

To a greater degree than most non-technology companies or larger technology companies, our future success depends on our ability to attract and retain highly qualified technical and management personnel. As a mid-sized company, we are particularly dependent on a relatively small group of key employees. Competition for skilled technical and management employees is intense within our industry. As a result, we may not be able to retain our existing key technical and management personnel. In addition, we may not be able to attract additional qualified employees in the future. If we are unable to retain existing key employees or are unable to hire new qualified employees, our operating results could be adversely affected.

We recently implemented a new enterprise-wide financial reporting system which may cause operating or reporting disruptions.

In fiscal 2009, the Company initiated the implementation of an enterprise-wide financial reporting ("ERP") system to improve processes, enhance the access and timeliness of critical business information and strengthen controls throughout the Company. We converted to this new system in October 2010. Many companies have experienced operating or reporting disruptions when converting to a new ERP system, including limitations on a company's ability to deliver and bill for customer shipments, maintain current and complete books and records, maintain an effective internal control environment and meet external reporting deadlines. While we have not yet experienced any significant

disruptions to our business, we may encounter some unexpected aspects of the conversion that cause difficulty in the new reporting system which could adversely affect the Company's business, results of operations and cash flows.

We depend upon a third party to provide inventory management, order fulfillment, and direct sales logistics.

We rely on a third party vendor located in Singapore 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, 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.

If our independent software and hardware developers and suppliers are unable or unwilling to meet our contractual requirements, we may face a delay or shortage of the introduction of new products, or the support of existing products.

We rely on independent software and hardware developers for the design, development, supply and support of IP cores, design and development software, and certain elements of evaluation boards. As a result, failure or significant delay to complete software or hardware under contract to deliver could disrupt the release of or introduction of new 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.

Our entire long-term marketable securities portfolio is invested in auction rate securities, which at the time of purchase were investment grade and acquired within the guidelines of our then current investment policy. Subsequent to purchase, these auction rate securities were the subject of multiple failed auctions, which adversely affected their liquidity. If auction rate securities continue to experience unsuccessful auctions, or if the credit rating of the auction rate security or auction rate security issuer deteriorates, we may in the future be required to adjust the carrying value of the auction rate security through impairment charges, and any of these events could have a materially detrimental effect on our liquidity and results of operations.

At January 1, 2011 and January 2, 2010, the Company held auction rate securities with a par value of $11.6 million and $24.1 million, respectively. The Company intends to sell its auction rate securities as markets for these securities resume or reasonable offers become available. At January 1, 2011, due to continued multiple failed auctions and a determination of illiquidity, the $11.6 million par value of auction rate securities held by the Company had an estimated fair value of $10.2 million and 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 Federal Family Educational Loan Program.

If we were to liquidate our position in these securities, the amount realized could be materially different than the estimated fair value amounts at which we are carrying these securities and there could be a materially detrimental effect on our financial results.

An acquisition may harm our business, financial condition or operating results.

We have made acquisitions in the past to execute on our business strategy which create uncertainty to our future operating results and cash flows. We may acquire products, technologies or businesses from third parties. An acquisition will require considerable management time, may divert time away from operations, require substantial cash resources, require us to incur or assume debt, and involve the issuance of the Company’s equity securities. The success of any acquisition requires the integration of products, technologies, personnel and administrative resources, and could result in departures of key personnel, equity dilution or acquisition of unknown liabilities. As a result, an acquisition could disrupt our operations and may have an adverse effect on our business, financial condition or operating results.

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, worker's 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.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

Our corporate headquarters consists of land and 189,000 square feet of buildings we own in Hillsboro, Oregon. A portion of undeveloped land near the corporate headquarters is currently owned by the Company but listed for sale. In Shanghai, China, we own an 18,869 square foot research and development facility and lease an additional 6,481 square foot research and development facility. We currently lease a 66,350 square foot research and development facility in San Jose, California through December 2013. We also currently lease a 6,400 square foot research and development facility in Illinois through August 2012, and a 20,000 square foot research and development facility in Pennsylvania through September 2014. In addition, we lease a 4,200 square foot facility in Singapore, with a term through February 2013, primarily to support supply chain activities. In October 2010, we completed a lease agreement for a 5,296 square foot research and development facility in Bangalore, India with a term through October 2012. We also lease office facilities in multiple metropolitan locations for our domestic and international sales staff. We believe that our existing facilities are suitable and adequate for our current and foreseeable future needs.

Additionally, we lease a 25,000 square foot facility in Austin, Texas through December 2011. As part of our 2005 restructuring plan (see discussion under “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations”) in December 2005, we ceased our research and development operations in this location, and have subleased the Austin facility through the end of 2011.

Item 3. Legal Proceedings.

On June 11, 2007, a patent infringement lawsuit was filed by Lizy K. John (“John”) against Lattice Semiconductor Corporation in the U.S. District Court for the Eastern District of Texas, Marshall Division. John seeks an injunction, unspecified damages, and attorneys' fees and expenses. The Company filed a request for re-examination of the patent by the United States Patent and Trademark Office (“PTO”), which was granted by the PTO, and the re-examination is in progress. The litigation has been stayed pending the results of the re-examination. At this stage of the proceedings, we do not have an estimate of the likelihood or the amount of any potential exposure to us.

On April 30, 2010, Stragent, LLC (“Stragent”), a non-practicing entity, and its alleged assignee Seesaw Foundation (“Seesaw”), filed a patent infringement lawsuit against the Company and Freescale Semiconductor, Inc. in the U.S. District Court for the Eastern District of Texas, Tyler Division, seeking unspecified damages. At this stage of the proceedings, we do not have an estimate of the likelihood or the amount of any potential exposure to us.

On July 20, 2010, Intellitech Corporation (“Intellitech”) filed a patent infringement lawsuit against the Company, Altera Corporation and Xilinx, Inc. in the U.S. District Court for the District of Delaware, seeking unspecified damages. At this stage of the proceedings, we do not have an estimate of the likelihood or the amount of any potential exposure to us.

On December 8, 2010, Intellectual Ventures I LLC and Intellectual Ventures II LLC (“Intellectual Ventures”) filed a patent infringement lawsuit against the Company, Altera Corporation and Microsemi Corporation in the U.S. District Court for the District of Delaware, seeking unspecified damages. 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 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.

Item 4. [Removed and Reserved]

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters & Issuer Purchases of Equity Securities.

Market Information

As of January 1, 2011, our common stock is traded on the NASDAQ Global Select Market under the symbol “LSCC”. For 2010 and 2009 our stock traded on the NASDAQ Global Market. The following table sets forth the low and high intraday sale prices for our common stock for the last two fiscal years, as reported by NASDAQ.

	Low	High
2010:		
First Quarter	$2.41	$3.80
Second Quarter	3.69	5.97
Third Quarter	4.11	6.02
Fourth Quarter	4.24	6.17
2009:		
First Quarter	$1.06	$1.74
Second Quarter	1.38	2.26
Third Quarter	1.66	2.71
Fourth Quarter	1.87	3.00

Holders

As of March 10, 2011, we had approximately 402 stockholders of record.

Dividends

The payment of dividends on our common stock is within the discretion of our Board of Directors. We intend to retain earnings to finance the growth of our business. We have never paid cash dividends.

Recent Sales of Unregistered Securities

None.

Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased	Average Price paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Program	Maximum Dollar Value of Shares That May Yet Be Purchased Under the Program
November 28, 2010 through Janaury 1, 2011	371,090	$5.31	371,090	$18,029,000
Total	371,090	$5.31	371,090	$18,029,000

On October 21, 2010, our Board of Directors authorized a share repurchase program of up to $20.0 million of the Company's common stock over the next twelve months from adoption. In connection with the new stock repurchase

program, we entered into a 10b5-1 plan. During fiscal 2010, approximately 371,000 shares were repurchased for $2.0 million all of which were open market transactions and were funded from available working capital. All repurchased shares under this program were retired in January 2011. How much common stock will be repurchased in the future will depend on market conditions, including the price of the common stock.

On December 13, 2008, our Board of Directors approved a stock repurchase program pursuant to which up to $20.0 million of outstanding common stock could have been repurchased. In connection with the stock repurchase program, we entered into a 10b5-1 plan. The duration of the repurchase program was twelve months from adoption, and expired on December 13, 2009. During fiscal 2009, approximately 263,000 shares were repurchased for $0.3 million, all of which were open market transactions and were funded from available working capital. All shares repurchased under this program were retired in 2010.

Comparison of Total Cumulative Stockholder Return

The following graph shows the five-year comparison of cumulative stockholder return on our common stock, the Standard and Poor's (“S&P”) 500 Index and the Philadelphia Semiconductor Index (“SOX”) from December 2005 through December 2010. Cumulative stockholder return assumes $100 invested at the beginning of the period in our common stock, the S&P 500 and SOX. Historical stock price performance is not necessarily indicative of future stock price performance.

Lattice Cumulative Stockholder Return

Item 6. Selected Financial Data.

	Year Ended				
	January 1, 2011	January 2, 2010	January 3, 2009	December 29, 2007	December 30, 2006
	(in thousands, except per share data)				
STATEMENT OF OPERATIONS DATA:					
Revenue	$297,768	$194,420	$222,262	$228,709	$245,459
Costs and expenses:					
Cost of products sold	117,943	90,077	102,831	103,157	106,727
Research and development	60,326	56,133	68,610	82,977	81,968
Selling, general and administrative	64,359	52,545	58,680	58,485	58,450
Impairment loss on goodwill	—	—	—	223,556	—
Amortization of intangible assets	—	228	5,587	9,832	10,806
Restructuring charges	11	3,689	6,789	2,372	311
	242,639	202,672	242,497	480,379	258,262
Income (loss) from operations	55,129	(8,252)	(20,235)	(251,670)	(12,803)
Other income (expense), net	2,474	1,812	(17,791)	12,540	16,951
Income (loss) before provision for income taxes	57,603	(6,440)	(38,026)	(239,130)	4,148
Provision for income taxes	531	517	180	686	1,055
Net income (loss)	$57,072	$(6,957)	$(38,206)	$(239,816)	$3,093
Basic net income (loss) per share	$0.49	$(0.06)	$(0.33)	$(2.09)	$0.03
Diluted net income (loss) per share	$0.48	$(0.06)	$(0.33)	$(2.09)	$0.03
Shares used in per share calculations:					
Basic	116,726	115,384	115,291	114,915	114,188
Diluted	120,143	115,384	115,291	114,915	115,019

	At				
	January 1, 2011	January 2, 2010	January 3, 2009	December 29, 2007	December 30, 2006
	(in thousands)				
BALANCE SHEET DATA:					
Cash, cash equivalents and Short-term marketable securities	$238,220	$164,540	$65,909	$85,063	$233,208
Total assets	$377,687	$296,557	$291,936	$376,285	$725,906
Convertible notes	$—	$—	$—	$40,000	$109,600
Stockholders' equity	$318,722	$253,360	$254,939	$286,232	$511,745

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At December 29, 2007, the estimated fair value of the Company was below book value. Therefore, the Company performed an impairment test on Goodwill in accordance with ASC 350. We calculated the impairment loss based on an allocation of the fair value of the Company's equity to the fair value of the Company's assets and liabilities in a manner similar to a purchase price allocation in a business combination. Fair value was based on two primary valuation methodologies: the income approach, which used the discounted cash flow method, and the market approach, which used the market capitalization method. In the allocation, goodwill was determined to have no implied fair value, and, as a result, goodwill related to the acquisition of Vantis Corporation on June 15, 1999, the acquisition of Integrated Intellectual Properties, Inc. on March 16, 2001, and the acquisition of the FPGA business of Agere

Systems, Inc. on January 18, 2002 totaling $223.6 million was written off and recorded as an Impairment loss on goodwill. As a result, we no longer have Goodwill recorded on our Consolidated Balance Sheets.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Overview

Lattice Semiconductor Corporation (“Lattice” or the “Company”) 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 the end customer as specific logic circuits, and enable the end customer to shorten design cycle times and reduce development costs. 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. Our end customers are primarily original equipment manufacturers in the communications, computing, industrial, consumer, automotive, medical and military end markets.

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. A description of our critical accounting policies follows.

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 and deferred income taxes and liabilities, such as accrued liabilities (including restructuring charges), income taxes and 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 revenues and expenses during the fiscal periods presented. Actual results could differ from those estimates.

Revenue Recognition and Deferred Income. Revenue from sales to customers is recognized upon shipment, or in the case of sales by our sell-through distributors, at the time of reported resale, provided that persuasive evidence of an arrangement exists, the price is fixed or determinable, title has transferred, collection of resulting receivables is reasonably assured, there are no customer remaining acceptance requirements and no remaining significant obligations. 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 us 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. We must use estimates and apply judgment to reconcile sell-through distributors' reported inventories to their activities. Any error in our judgment could lead to inaccurate reporting of our Revenue, Cost of products sold, Deferred income and allowances on sales to sell-through distributors, and Net income (loss).

At the time of shipment to a sell-through distributor amounts are invoiced at published list price. The final price is set at the time of resale and is determined in accordance with a distributor price agreement. Amounts invoiced are recorded in Accounts receivable, net and inventory is transferred from Inventories to Deferred income and allowances on sales to sell-through distributors. 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). Our estimate of inventory valued at published list price and held by sell-through distributors with right of return totaled $50.1 million and $31.7 million at January 1, 2011

and January 2, 2010, respectively. Distributor advances totaled $26.8 million and $16.5 million at January 1, 2011 and January 2, 2010, respectively and are recorded in Deferred income and allowances to sell-through distributors. Deferred costs of sales related to inventory held by sell-through distributors totaled $7.6 million and $5.0 million at January 1, 2011 and January 2, 2010, respectively.

During fiscal 2009, the Company embarked on a program to restructure our distribution channels primarily in the Asia Pacific region, from a sell-in to a sell-through distribution model. As a result, the majority of our revenue in fiscal 2010 was from reported resale from our sell-through distributors. Resale of product by sell-through distributors as a percentage of our total revenue was 56%, 38% and 33% in fiscal 2010, 2009 and 2008, respectively.

Revenue from software licensing was not material for the periods presented.

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 its 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”) 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 generally represent quoted prices 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. The determination of fair value for Level 3 instruments requires the most management judgment and subjectivity.

Inventory. We value inventory at the lower of cost or market. In addition, we write down unproven, excess and obsolete inventories to net realizable value. To value our inventory, we make a number of estimates and assumptions including market and economic conditions, product lifecycles and forecasted demand for our products. To the extent actual results differ from these estimates and assumptions, the balances of reported inventory and cost of products sold will change accordingly.

Long-Lived Assets. We review our long-lived assets, primarily property and equipment and amortizable intangible assets, in accordance with ASC 360, “Property, Plant and Equipment", which requires us to review the impairment of long-lived assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Impairment is determined by comparing the estimated undiscounted cash flows to the carrying amount. A loss is recorded if the carrying amount of the asset exceeds the estimated undiscounted cash flow for the difference between carrying value and fair value.

Restructuring Charges. Expenses associated with exit or disposal activities are recognized when incurred under ASC 420, “Exit or Disposal Cost Obligations,” for everything but severance. Because the Company has a history of paying severance benefits, the cost of severance benefits associated with a restructuring charge is recorded when such costs are probable and the amount can be reasonably estimated in accordance with ASC 712, “Compensation - Nonretirement Postemployment Benefits.” For leased facilities that are vacated, an amount equal to the total future lease obligations from the date of vacating the premises through the expiration of the lease, net of any future sublease income, is recorded as a part of restructuring charges.

Accounting for Income Taxes. To report income tax expense related to operating results, we record current and deferred income tax assets and liabilities in our Consolidated Balance Sheet. In determining the value of our deferred tax assets, we make estimates of future taxable income. At the end of fiscal years 2010, 2009 and 2008, we have recorded full valuation allowances for all of our U.S. deferred tax assets due to uncertainties regarding their realization. We have not recognized a valuation allowance against our foreign deferred tax assets as we believe it is more likely than not that the deferred tax assets will be realized.

We recognize uncertain tax positions in accordance with ASC 740, “Income Taxes,” We recognize estimated interest and penalties that would be assessed in relation to the estimated settlement value of uncertain tax positions in the

Provision for income taxes.

Stock-Based Compensation. We use the Black-Scholes option pricing model to estimate the fair value of substantially all share-based awards consistent with the provisions of ASC 718. Option pricing models, including the Black-Scholes model, also require the use of input assumptions, including expected volatility, expected term, expected dividend rate, and expected risk-free rate of return. The assumptions for expected volatility and expected term are the two assumptions that significantly affect the grant date fair value.

Restricted stock unit grants are part of the Company's equity compensation practices for employees who receive equity grants. The restricted stock units granted to employees generally vest quarterly over a four-year period beginning on the grant date.

Results of operations

Key elements of our Consolidated Statements of Operations were as follows (dollars in thousands):

	Year Ended								
	January 1, 2011			January 2, 2010			January 3, 2009		
Revenue	$297,768	100.0	%	$194,420	100.0	%	$222,262	100.0	%
Gross margin	179,825	60.4		104,343	53.7		119,431	53.8	
Research and development	60,326	20.3		56,133	28.9		68,610	30.9	
Selling, general and administrative	64,359	21.6		52,545	27.0		58,680	26.4	
Amortization of intangible assets	—	—		228	0.1		5,587	2.5	
Restructuring charges	11	0.0		3,689	1.9		6,789	3.1	
Income (loss) from operations	$55,129	18.5	%	$(8,252)	4.2	%	$(20,235)	(9.1)%	

Revenue

Revenue in fiscal 2010 increased to $297.8 million as compared to $194.4 million in fiscal 2009. Revenue increased across all product lines, end markets, and product classifications. Revenue in fiscal 2009 decreased to $194.4 million as compared to $222.3 million in fiscal 2008 primarily due to a reduction in revenue from Mature and Mainstream products, partially offset by an increase in revenue from New products.

The communications end market accounted for approximately 49%, 56% and 54% of our total revenue in fiscal 2010, 2009 and 2008, respectively. Accordingly, a significant portion of our revenue is dependent on the health of this end market. Forecasting future revenue is particularly challenging as revenue growth is dependent on overall economic conditions for our industry and market acceptance of our new products.

Revenue by Product Line

The revenue increase for FPGA and PLD in fiscal 2010 compared to fiscal 2009 was primarily related to units sold for both product line categories driven by demand for our New products.

There was a 16% increase for fiscal 2009 compared to fiscal 2008 in FPGA units sold primarily driven by an increase in demand for our FPGA New products. PLD revenue decreased in fiscal 2009, when compared to fiscal 2008 due to a decline in units sold, primarily related to Mature and Mainstream products, partially offset by an increase in average selling prices.

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The composition of our revenue by product line for fiscal years 2010, 2009 and 2008 was as follows (dollars in thousands):

	Year Ended January 1, 2011			January 2, 2010			January 3, 2009		
FPGA	$97,089	33	%	$64,564	33	%	$57,853	26	%
PLD	200,679	67	%	129,856	67	%	164,409	74	%
Total revenue	$297,768	100	%	$194,420	100	%	$222,262	100	%

Revenue by End Market

The global communications end market accounted for approximately 49%, 56% and 54% of our revenue for fiscal years 2010, 2009 and 2008, respectively. Our revenue for this end market is largely dependent on five large telecommunications equipment providers, however, singularly none exceeded 10% in fiscal 2010 and 2008, and one of which accounted for approximately 11% of fiscal 2009 revenue although it resulted from sell-through resale by one of our distributors. We expect that a significant portion of our revenue will continue to be dependent on the health of the communications end market.

The composition of our revenue by end market for fiscal years 2010, 2009 and 2008 was as follows (dollars in thousands):

	Year Ended January 1, 2011			January 2, 2010			January 3, 2009		
Communications	$146,607	49	%	$108,780	56	%	$119,370	54	%
Industrial and other	75,667	25	%	37,248	19	%	52,346	23	%
Computing	42,969	15	%	27,086	14	%	27,004	12	%
Consumer	32,525	11	%	21,306	11	%	23,542	11	%
Total revenue	$297,768	100	%	$194,420	100	%	$222,262	100	%

Revenue by Product Classification

Revenue for New products increased 91% for fiscal 2010 as compared to fiscal 2009, and 77% for fiscal 2009 as compared to fiscal 2008, primarily as a result of increased unit sales. Revenue from Mainstream products increased 33% for 2010 but decreased