LATTICE SEMICONDUCTOR CORP
Form 10-Q
May 05, 2010

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
(Mark One)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE QUARTERLY PERIOD ENDED April 3, 2010
OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE TRANSITION PERIOD FROM __________ TO __________
Commission file number 000-18032
LATTICE SEMICONDUCTOR CORPORATION
(Exact name of Registrant as specified in its charter)

State of Delaware	93-0835214
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

5555 N.E. Moore Court, Hillsboro, Oregon	97124-6421
(Address of principal executive offices)	(Zip Code)

(503) 268-8000
(Registrant's telephone number, including area code)
Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period as the registrant was required to submit and post such files). Yes [ ] No [ ]
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer,” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes [ ] No [X]
Number of shares of common stock outstanding as of May 4, 2010 115,944,019

The information contained in this Form 10-Q is as of May 5, 2010. This Form 10-Q should be read in conjunction with our Annual Report on Form 10-K for the year ended January 2, 2010.

LATTICE SEMICONDUCTOR CORPORATION
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Forward-Looking Statements

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Any statements about our expectations, beliefs, plans, objectives, assumptions or future events or performance are not historical facts and may be forward-looking. We use words or phrases such as “anticipates,” “believes,” “could,” “estimates,” “expects,” “intends,” “plans,” “predicts,” “projects,” “may,” “will,” “should,” “continue,” “ongoing,” “future,” “potential” and phrases to identify forward-looking statements. Examples of forward-looking statements include, but are not limited to, statements about our fiscal 2010 revenues from sell-through distributors; changes to our unrecognized tax benefits; the timing of our completion of our 2009 restructuring plans; 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; our benefiting from our cost reduction actions; our expectations regarding research and development investment and increases in capital expenditures; the timing of our receipt of the remaining Fujitsu advance; 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, unexpected impacts of recent accounting guidance and the other risks that are described herein and that are otherwise described from time to time in our filings with the Securities and Exchange Commission, including but not limited to, the items discussed in “Risk Factors” in Item 1A of Part II of this Report. You should not unduly rely on forward-looking statements because our actual results could differ materially from those expressed in any forward-looking statements made by us. In addition, any forward-looking statement applies only as of the date on which it is made. We are not required 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. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

LATTICE SEMICONDUCTOR CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share data)
(unaudited)

	Three months ended	
	April 3, 2010	April 4, 2009
Revenue	$ 70,432	$ 43,336
Costs and expenses:		
Cost of products sold	29,264	20,658
Research and development	14,682	14,891
Selling, general and administrative	15,418	12,943
Amortization of intangible assets	—	228
Restructuring charges	82	(25)
	59,446	48,695
Income (loss) from operations	10,986	(5,359)
Other income (expense), net	302	(512)
Income (loss) before provision (benefit) for income taxes	11,288	(5,871)
Provision (benefit) for income taxes	199	(121)
Net income (loss)	$ 11,089	$ (5,750)
Basic and diluted net income (loss) per share	$ 0.10	$ (0.05)
Shares used in per share calculations:		
Basic	115,669	115,430
Diluted	116,717	115,430

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

LATTICE SEMICONDUCTOR CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except share and par value data)
(unaudited)

	April 3, 2010	January 2, 2010
Assets		
Current assets:		
Cash and cash equivalents	$ 156,120	$ 156,069
Short-term marketable securities	27,405	8,471
Accounts receivable, net	48,303	33,551
Inventories	24,680	25,925
Current portion of foundry advances	5,254	11,475
Prepaid expenses and other current assets	8,348	7,980
Total current assets	270,110	243,471
Property and equipment, less accumulated depreciation	35,863	36,507
Long-term marketable securities	12,822	12,939
Other long-term assets	2,779	3,640
Total assets	$ 321,574	$ 296,557
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable and accrued expenses	$ 26,731	$ 22,679
Accrued payroll obligations	7,986	5,118
Deferred income and allowances on sales to distributors	16,735	10,160
Total current liabilities	51,452	37,957
Long-term liabilities	4,645	5,240
Total liabilities	56,097	43,197
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, $.01 par value, 10,000,000 shares authorized, none issued and outstanding	—	—
Common stock, $.01 par value, 300,000,000 shares authorized, 115,684,000 and 115,592,000 shares issued and outstanding	1,157	1,156
Paid-in capital	623,745	622,584
Treasury stock	(326)	(326)
Accumulated other comprehensive income	24	158
Accumulated deficit	(359,123)	(370,212)
Total stockholders' equity	265,477	253,360
Total liabilities and stockholders' equity	$ 321,574	$ 296,557

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

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LATTICE SEMICONDUCTOR CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(unaudited)

	Three months ended	
	April 3, 2010	April 4, 2009
Cash flows from operating activities:		
Net income (loss)	$ 11,089	$ (5,750)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	3,508	4,100
Impairment of Long-term marketable securities	—	664
Stock-based compensation	1,195	1,259
Changes in assets and liabilities:		
Accounts receivable, net	(14,752)	1,140
Inventories	1,245	2,427
Prepaid expenses and other current assets	(510)	742
Foundry advances (includes advance credits)	6,221	3,235
Accounts payable and accrued expenses (includes restructuring)	3,985	147
Accrued payroll obligations	2,868	(187)
Deferred income and allowances on sales to distributors	6,575	169
Other liabilities	(530)	(438)
Net cash provided by operating activities	20,894	7,508
Cash flows from investing activities:		
Proceeds from sales or maturities of marketable securities	5,152	10,240
Purchase of marketable securities	(24,008)	—
Capital expenditures	(1,954)	(798)
Net cash (used in) provided by investing activities	(20,810)	9,442
Cash flows from financing activities:		
Payment on yen line of credit	—	(805)
Treasury stock	—	(324)
Net proceeds from issuance of common stock	63	—
Net share settlement upon issuance of RSUs	(96)	(43)
Net cash used in financing activities	(33)	(1,172)
Net increase in cash and cash equivalents	51	15,778
Beginning cash and cash equivalents	156,069	53,668
Ending cash and cash equivalents	$ 156,120	$ 69,446
Supplemental disclosures of non-cash investing and financing activities:		
Unrealized (loss) gain on assets measured at fair value, net, included in Accumulated other comprehensive income	$ (39)	$ 831
Distribution of deferred compensation from trust assets	$ 109	$ 353

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

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

Note 1 - Basis of Presentation and Significant Accounting Policies:
The accompanying Condensed Consolidated Financial Statements are unaudited and have been prepared by Lattice Semiconductor Corporation (the “Company”, “we”, “us” or “our”) pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”) and in our opinion include all adjustments, consisting of normal recurring adjustments, necessary for the fair statement of results for the interim periods. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. These Condensed Consolidated Financial Statements should be read in conjunction with our audited financial statements and notes thereto included in our Annual Report on Form 10-K for the fiscal year ended January 2, 2010.
The preparation of financial statements in conformity with 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, accrued liabilities (including restructuring charges), income taxes and deferred income and allowances on sales to certain 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. Our most critical estimate relates to auction rate securities, and the estimates of fair value of these securities made in accordance with the provisions of Financial Accounting Standards Board (“FASB”) Accounting Standards Codification™ (“ASC”) No. 820, “Fair Value Measurements and Disclosures.” Actual results could differ from those estimates.
We report based on a 52 or 53-week fiscal year ending on the Saturday closest to December 31. Our first quarter of fiscal 2010 and first quarter of fiscal 2009 ended on April 3, 2010 and April 4, 2009, respectively. All references to quarterly or three months ended financial results are references to the results for the relevant fiscal period.

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

Concentration Risk
Potential exposure to concentration risk consist primarily of cash and cash equivalents, marketable securities, trade receivables and supply of wafers for our new products. We place our investments primarily through three financial institutions and mitigate the concentration of credit risk by placing percentage limits on the maximum portion of the investment portfolio which may be invested in any one investment instrument. The Company’s investment policy defines approved credit ratings for investment securities. Purchased securities must meet or exceed the ratings; however, due to liquidity issues in global credit and capital markets, some of our auction rate securities have fallen below our required credit ratings during the past periods. Investments consisted primarily of money market instruments, “C” or better rated auction rate securities, “AA” or better corporate notes and bonds, “AA” or better rated U. S. municipal notes, and U.S. government agency obligations. See Note 4 for a discussion of the liquidity attributes of our marketable securities.

Concentration of credit risk with respect to trade receivables are mitigated by a geographically diverse customer base consisting primarily of four large distributors, a large number of OEM customers and several contract manufacturers, as well as by our credit and collection process. Accounts receivable are recorded at the invoice amount, do not bear interest, and are shown net of allowances for doubtful accounts of $1.0 million at both April 3, 2010 and January 2,

2010. We perform credit evaluations for essentially all customers and secure transactions with letters of credit or advance payments where appropriate. We regularly review our allowance for doubtful accounts and the aging of our accounts receivable. Write-offs for uncollected trade receivables have not been significant to date.

Current portion of foundry advances include $5.3 million and $11.5 million at April 3, 2010 and January 2, 2010, respectively, pursuant to an agreement with Fujitsu Limited (“Fujitsu”) in which we agreed to advance $125.0 million to Fujitsu for future wafer purchases. 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, in two installments, $30.0 million of which was received on April 15, 2009 and the remaining $30.0 million was received on October 15, 2009. We expect to receive the remaining advance of approximately $5.3 million in the form of advance credits, including engineering mask set charges, by the end of the second quarter of the Company's fiscal 2010. We rely on Fujitsu for essentially all wafer purchases for our new products. The repayment obligation of Fujitsu is unsecured.

Revenue Recognition and Deferred Income

Revenue from sales to customers is generally recognized upon shipment provided that persuasive evidence of an arrangement exists, the price is fixed or determinable, title has transferred, collection of resulting receivables is probable, 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. Revenue and cost relating to sell-through distributor sales are deferred until either the product is sold by the distributor or return privileges terminate, at which time related distributor resale revenue, effects of distributor price adjustments, and costs are reflected in income. Our revenue reporting is highly dependent on receiving pertinent and accurate data from our distributors in a timely fashion. 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 judgments to reconcile distributors' reported inventories to their activities. Any error in our judgment could lead to inaccurate reporting of our revenues, deferred income and allowances on sales to distributors, and net income. Revenue from software licensing was not material for the periods presented.

We enter into arrangements with certain sell-through distributors to issue accounts receivable credit adjustments (“distributor advances”) to reduce the distributors' working capital required to service our end customers. The distributor advances are for estimated future price discounts and are recorded as a reduction of Deferred income and allowances on sales to distributors. These arrangements are unsecured, bear no interest, are settled on a quarterly basis and are due upon demand. The distributor advances have no impact on revenue recognition and totaled $22.2 million and $16.5 million at April 3, 2010 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, we expect the majority of our revenue in fiscal 2010 will be from reported resale from our sell-through distributors. Resale of product by sell-through distributors as a percentage of our total revenue was 38%, 33% and 36% in fiscal years 2009, 2008 and 2007, respectively, and 55% for the first quarter of fiscal 2010.

New Accounting Pronouncements

In September 2009, the FASB issued Accounting Standards Update 2009-13, “Revenue Recognition (Topic 605): Multiple Deliverable Revenue Arrangements (a consensus of the FASB Emerging Issues Task Force),” (“ASU 2009-13”). ASU 2009-13 provides principles and application guidance on whether multiple deliverables exist, how the arrangement should be separated and the consideration allocated. Additionally, ASU 2009-13 requires an entity to allocate revenue in an arrangement using estimated selling prices of deliverables if a vendor does not have vendor-specific objective evidence or third-party evidence of selling price, eliminates the residual method and requires an entity to allocate revenue using the relative selling price method. This update is effective for the Company beginning January 1, 2011 and can be applied prospectively or retrospectively. Adoption is not expected to materially impact the Company's consolidated financial position, results of operations or cash flows directly when it becomes effective, as the Company will not elect retrospective adoption.

In October 2009, the FASB issued Accounting Standards Update 2009-14, "Software (Topic 985): Certain Revenue Arrangements That Include Software Elements," ("ASU 2009-14"). ASU 2009-14 clarifies which revenue allocation and measurement guidance should be used for arrangements that contain both tangible products and software, in cases where the software is more than incidental to the tangible product as a whole. More specifically, if the software sold with or embedded within the tangible product is essential to the functionality of the tangible product, then this software as well as undelivered software elements that relate to this software are excluded from the scope of existing software revenue guidance. This guidance is to be applied prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. The Company is currently assessing the impact of the adoption on its financial statements.

In January 2010, the FASB issued Accounting Standards Update No. 2010-06, “Fair Value Measurements Disclosures,” which amends Subtopic 820-10 of the FASB Accounting Standards Codification to require new disclosures for fair value measurements and provides clarification for existing disclosures requirements ("ASU No. 2010-06"). More specifically, this update will require (a) an entity to disclose separately the amounts of significant transfers in and out of Levels 1 and 2 fair value measurements and to describe the reasons for the transfers; and (b) information about purchases, sales, issuances and settlements to be presented separately (i.e. present the activity on a gross basis rather than net) in the reconciliation for fair value measurements using significant unobservable inputs (Level 3 inputs). This update clarifies existing disclosure requirements for the level of disaggregation used for classes of assets and liabilities measured at fair value and requires disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements using Level 2 and Level 3 inputs. ASU No. 2010-06 is effective for the Company for interim and annual reporting beginning after December 15, 2009, with one new disclosure effective after December 15, 2010. The Company has adopted part (a) of this ASU in full with respect to the interim period ended April 3, 2010, and part (b) will be adopted in fiscal year 2011.

Note 2 - Net Income (Loss) Per Share:

Net income (loss) per share is computed based on the weighted average number of shares of common stock and potentially dilutive securities assumed to be outstanding during the period using the treasury stock method. Potentially dilutive securities consist of stock options, restricted stock units ("RSUs") and warrants to purchase shares of common stock. There were no outstanding warrants as of April 3, 2010 or January 2, 2010.

The computation of diluted net income per share for the first quarter of fiscal 2010, includes the effects of stock options and RSUs aggregating 7.3 million shares, as they are dilutive, and excludes the effects of stock options and RSUs aggregating 5.9 million shares, as they are antidilutive. The computation of diluted net loss per share for the first quarter of fiscal 2009, excludes the effects of stock options, RSUs and warrants aggregating 13.7 million shares, because the effect was antidilutive. Stock options, RSUs and warrants are antidilutive when the aggregate of exercise price, unrecognized stock-based compensation expense and excess tax benefit are greater than the average market price for our common stock during the period or when the Company is in a net loss position. Stock options and RSUs that are antidilutive in the first quarter of fiscal 2010 could become dilutive in the future.

Note 3 - Marketable Securities:

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

	April 3, 2010		January 2, 2010	
Short-term marketable securities:	$	27,405	$	8,471
Long-term marketable securities:				
Due after ten years	12,626		12,743	
No contractual maturity date	196		196	
	12,822		12,939	
Total marketable securities	$	40,227	$	21,410

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

	April 3, 2010		January 2, 2010	
Short-term marketable securities:				
Corporate and government bonds and notes	$	27,405	$	8,471
Long-term marketable securities:				
Auction Rate Securities (by type of underlying asset):				
Federally-insured or FFELP guaranteed student loans	12,626		12,743	

Auction market preferred shares	196	196
	12,822	12,939
Total marketable securities	$ 40,227	$ 21,410

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

	April 3, 2010			January 2, 2010		
	Par Value	Fair Value	S&P Credit rating	Par Value	Fair Value	S&P Credit rating
Long-term marketable securities:						
Federally-insured or FFELP guaranteed student loans	$ 15,575	$ 12,626	AAA	$ 15,725	$ 12,743	AAA
Auction market preferred shares	8,325	196	C	8,325	196	C
Total long-term marketable securities	$ 23,900	$ 12,822		$ 24,050	$ 12,939	

During the first quarter of fiscal 2010, the Company accepted five partial redemptions at 100% of par value of auction rate securities. The Company intends to sell its auction rate securities as markets for these securities resume or offers become available. At April 3, 2010, due to continued multiple failed auctions and a determination of illiquidity, the auction rate securities held by the Company are classified as Long-term marketable securities.
Student loan asset-backed notes are insured by the federal government or guaranteed by the Federal Family Educational Loan Program (“FFELP”). Auction market preferred shares are issued by Ambac Assurant Corporation (“AMBAC”).
While the auctions for auction rate securities have historically provided a liquid market for these securities, due to liquidity issues in global credit and capital markets, auction rate securities held by us have experienced multiple failed auctions (a portion beginning in October 2007). These instruments are considered illiquid and have been reclassified as Long-term marketable securities on the Condensed Consolidated Balance Sheets. No impairment charges were recognized in the first quarter of fiscal 2010. 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.

Note 4 - Fair Value of Financial Instruments:

	Fair value measurements as of April 3, 2010			
	Total	Level 1	Level 2	Level 3
Short-term marketable securities	$ 27,405	$ 27,405	$ —	$ —
Long-term marketable securities	12,822	—	—	12,822
Total assets measured at fair value	$ 40,227	$ 27,405	$ —	$ 12,822

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 in accordance with ASC 820. The framework under the provisions of ASC 820 establishes three levels of inputs that may be used to measure fair value. Each level of input has different levels of subjectivity and difficulty involved in determining fair value.

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

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. We have no investments in Level 2 instruments.

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. As a result of failed auctions, our auction rate securities are classified as Level 3 instruments. We employ the services of a valuation firm that specializes in valuing illiquid assets and collect other available market information regarding auction rate securities, which include third party valuation results, investment broker provided market information and available information on the credit quality of the underlying collateral. Our Level 3 instruments are classified as Long-term marketable securities on our Condensed Consolidated Balance Sheet.
During the first quarter of fiscal 2010 and first quarter of fiscal 2009, the following changes occurred in our Level 3 instruments (in thousands):

	Three months ended	
	April 3, 2010	April 4, 2009
Beginning fair value of Long-term marketable securities	$ 12,939	$ 19,485
Fair value of securities sold or redeemed	(117)	—
Temporary or other-than-temporary fluctuations in fair value	—	177
Ending fair value of Long-term marketable securities	$ 12,822	$ 19,662

In accordance with ASC 320, "Investments-Debt and Equity Securities," the Company recorded an unrealized loss of less than $0.1 million during the first quarter of fiscal 2010 on certain Short-term marketable securities (Level 1 instruments), which has been recorded in Accumulated other comprehensive income. Future fluctuations in fair value related to these instruments that the Company deems to be temporary, including any recoveries of previous write-downs, would be recorded to Accumulated other comprehensive income. In addition, during the first quarter of fiscal 2010, the Company realized a gain of less than $0.1 million related to the sale of a portion of its Long-term marketable securities portfolio.

If the Company were to determine in the future that any further decline in fair value is other-than-temporary, we would record an impairment charge, which could have a materially detrimental impact on our operating results. If we were to liquidate our position in these securities, it is likely that the amount of any future realized gain or loss would be different from the unrealized gain or loss reported in Accumulated other comprehensive income or the previously reported other-than-temporary impairment charge.

Note 5 - Inventories (in thousands):

	April 3, 2010	January 2, 2010
Work in progress	$ 15,959	$ 15,046
Finished goods	8,721	10,879
	$ 24,680	$ 25,925

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Note 6 - Changes in Stockholders' Equity and Comprehensive Income (in thousands):

	Common stock	Paid-in capital	Treasury stock	Accumu-lated deficit	Accumu-lated other compre-hensive income	Total
Balances, January 2, 2010	$ 1,156	$ 622,584	$ (326)	$ (370,212)	$ 158	$ 253,360
Net income for quarter ended April 3, 2010	—	—	—	11,089	—	11,089
Unrealized loss, net, related to marketable securities	—	—	—	—	(39)	(39)
Translation adjustments	—	—	—	—	(95)	(95)
Comprehensive income	—	—	—	—	—	10,955
Common stock issued in connection with exercise of stock options, ESPP and vested RSUs (net of taxes)	1	(34)	—	—	—	(33)
Stock-based compensation expense related to stock options, ESPP and RSUs	—	1,195	—	—	—	1,195
Balances, April 3, 2010	$ 1,157	$ 623,745	$ (326)	$ (359,123)	$ 24	$ 265,477

On December 13, 2008, the Company’s Board of Directors approved a stock repurchase program pursuant to which up to $20.0 million of outstanding common stock may be repurchased from time to time. The duration of the repurchase program was twelve months, and expired on December 13, 2009. During fiscal year 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. On May 4, 2010, the Board of Directors approved the retirement of repurchased shares.

Note 7 - Income Taxes:

We are subject to federal income tax as well as income tax of multiple state and foreign jurisdictions. We are no longer subject to federal, state and local, or foreign income tax examinations for years before 2001. We have federal net operating loss carryforwards that expire at various dates between 2021 and 2030. We have state net operating loss carryforwards that expire at various dates from 2010 through 2030. We also have federal and state credit carryforwards, some of which do not expire, with the remainder expiring at various dates from 2010 through 2030.

We have provided a valuation allowance equal to our net federal and state deferred tax assets as we have not met the more likely than not realization threshold for deferred tax asset recognition. We evaluate both positive and negative evidence to determine if some or all of our deferred tax assets should be recognized on a quarterly basis. As of April 4, 2010, the negative evidence, which includes a three year cumulative pretax loss, outweighs the positive evidence available. In future periods, if we determine that the positive evidence is sufficient to conclude that we are more-likely-than-not to realize some or all of our deferred tax assets, we will recognize a deferred tax asset and a benefit in the period in which such determination is made. As of April 4, 2010, the net deferred tax asset relates to foreign jurisdictions where we have concluded it is more likely than not that we will realize the net deferred tax assets in future periods.

The Internal Revenue Service (“IRS”) has examined our income tax returns for 2001 and 2002, and has issued proposed adjustments of $1.4 million, plus interest. These adjustments relate to the treatment of acquisition costs and a tax accounting method change for prepaid expenses. Although we do not agree with the proposed adjustment related to the prepaid expense matter, we believe that we have reached a tentative agreement concerning the acquisition costs. During the three months ended March 29, 2008, we made a payment of $0.3 million related to this tentative agreement. On May 23, 2008, the Company filed a petition with the Tax Court seeking a redetermination of the prepaid expense adjustment. Although the final resolution of this matter is uncertain, we believe that adequate amounts have been provided for as unrecognized tax benefits. There is the possibility of either a favorable or unfavorable effect on our results of operations in the period in which these matters are effectively settled. We will recognize any uncertain tax benefit in the period settled.

We are subject to state and local income tax examinations for the years 2001 through 2003. To date, there are no proposed adjustments that are expected to have a material adverse effect on our results of operations. We are not currently under examination in any foreign jurisdictions.

We believe that it is reasonably possible that $1.5 million of unrecognized tax benefits and $0.8 million of associated interest and penalties could significantly change during the next twelve months. The $2.3 million potential change would

represent a decrease in unrecognized tax benefits, comprised of items related to matters currently in IRS appeals, certain federal and state credits and uncertain income tax positions related to foreign tax filings for years that will no longer be subject to examination under expiring statutes of limitations.
We are paying foreign income taxes, which are reflected in the Provision (benefit) for income taxes in the Condensed Consolidated Statements of Operations and are primarily related to the cost of operating an offshore research and development subsidiary and sales subsidiaries. We are not currently paying federal income taxes and do not expect to pay such taxes until the benefits of our tax net operating losses are fully utilized. We expect to pay a nominal amount of state income tax. We accrue interest and penalties related to uncertain tax positions in the Provision (benefit) for income taxes.

Note 8 - Restructuring:
During the third quarter of fiscal 2009, the Company initiated a restructuring plan to lower operating expenses primarily by reducing headcount, reducing occupancy in certain leased facilities and to transfer inventory management, order fulfillment, and direct sales logistics from its headquarters in Oregon to a third party contractor in Singapore. This restructuring plan was substantially completed in the fourth quarter of fiscal 2009. During December 2009, the Company adopted a restructuring plan under which the Company established an operations center in Singapore. The Company began to transfer some of its supply chain activities from the Company's headquarters in Oregon to the new operations center in Singapore. This restructuring plan will be substantially completed by the fourth quarter of fiscal 2010. The above plans are collectively referred to as the "2009 restructuring plans".
During the third quarter of fiscal 2008, we initiated a restructuring plan ("2008 restructuring plan") to better align operating expenses with near-term revenue expectations, primarily by reducing headcount. The 2008 restructuring plan was substantially complete by the end of fiscal 2008. During the third quarter of fiscal 2007, we approved and initiated a restructuring plan to lower operating expenses primarily by reducing headcount. This plan encompassed a reduction in work force, a voluntary separation program for certain employees and the closure of certain leased facilities. During the fourth quarter of fiscal 2005, we initiated and completed a restructuring plan ("2005 restructuring plan") to reduce operating expenses. The 2005 restructuring plan encompassed three major components - a streamlining of research and development sites, a voluntary separation program for certain employees and an organizational consolidation within the Company's largest design center.
At April 3, 2010, the Condensed Consolidated Balance Sheet included $1.7 million primarily related to operating lease commitments and severance and related expenses accrued under the provisions of the 2009 restructuring plans. In addition, the Condensed Consolidated Balance Sheet included $0.3 million related to operating lease commitments accrued under the provisions of the 2005 restructuring plan.
The following table displays the activity related to all the restructuring plans described above (in thousands):

	Balance at January 2, 2010	Charged to expense during quarter ended April 3, 2010	Paid or settled	Adjustments to reserve	Balance at April 3, 2010	Cumulative expense through January 2, 2010	Aggregate expense and adjustments
Severance and related costs	$ 715	$ 67	$ (147)	$ —	$ 635	$ 16,004	$ 16,071
Lease loss reserve and other	1,521	15	(196)	—	1,340	9,090	9,105
Total restructuring plans	$ 2,236	$ 82	$ (343)	$ —	$ 1,975	$ 25,094	$ 25,176

Total Restructuring charges included in our Condensed Consolidated Statements of Operations were as follows (in thousands):

Three months ended

April 3,
2010