LATTICE SEMICONDUCTOR CORP
Form 10-Q
May 07, 2013
Table of Contents

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 March 30, 2013
OR
[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE TRANSITION PERIOD FROM __________ TO __________
Commission file number 000-18032
LATTICE SEMICONDUCTOR CORPORATION
(Exact name of Registrant as specified in its charter)

State of Delaware	93-0835214
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
5555 N.E. Moore Court, Hillsboro, Oregon	97124-6421
(Address of principal executive offices)	(Zip Code)

(503) 268-8000
(Registrant's telephone number, including area code)
Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [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 [X] 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 3, 2013 115,638,383

Table of Contents

LATTICE SEMICONDUCTOR CORPORATION
INDEX

Table of Contents

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: the majority of our revenue being through our sell-through distributors; the impact of our global tax structure and expectations regarding taxes and tax adjustments; the Asia Pacific market being the primary source of our revenue; our plans to sell our auction rate securities; the costs and benefits of our restructuring plans; the impact of new accounting pronouncements; our expectations regarding customer preferences and product use; our expectations regarding defenses to claims against our intellectual property; our anticipated future amortization expenses; expected implementation of our stock repurchase program; our making significant future investments in research and development; our beliefs concerning the adequacy of our liquidity, and our ability to meet our operating and capital requirements and obligations.

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

Table of Contents

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	Three Months Ended	
	March 30, 2013	March 31, 2012
Revenue	$71,158	$71,700
Costs and expenses:		
Cost of products sold	33,003	32,215
Research and development	18,114	19,146
Selling, general and administrative	16,498	17,923
Acquisition related charges, including amortization of intangible assets	749	1,707
Restructuring charges	153	556
	68,517	71,547
Income from operations	2,641	153
Other (expense) income, net	(52)	64
Income before income taxes	2,589	217
Provision for income taxes	699	7,931
Net Income (loss)	$1,890	$(7,714)
Net Income (loss) per share:		
Basic	$0.02	$(0.07)
Diluted	$0.02	$(0.07)
Shares used in per share calculations:		
Basic	115,391	118,174
Diluted	116,714	118,174
Comprehensive Income (loss)		
Net Income (loss)	$1,890	$(7,714)
Other comprehensive income:		
Unrealized (loss) gain related to marketable securities, net	(148)	(74)
Less: reclassification adjustment for losses included in net income (loss)	73	9
Translation adjustment	(165)	155
Comprehensive Income (loss)	$1,650	$(7,624)

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

Table of Contents

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

	March 30, 2013	December 29, 2012
Assets		
Current assets:		
Cash and cash equivalents	$105,494	$118,536
Short-term marketable securities	73,550	64,865
Accounts receivable, net	55,984	46,947
Inventories	43,755	44,194
Prepaid expenses and other current assets	14,020	12,806
Total current assets	292,803	287,348
Property and equipment, less accumulated depreciation	40,596	40,384
Long-term marketable securities	4,717	4,717
Other long-term assets	8,795	6,854
Intangible assets, net of amortization	14,694	15,430
Goodwill	44,808	44,808
Deferred income taxes	28,617	29,218
Total assets	$435,030	$428,759
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable and accrued expenses	$37,132	$36,391
Accrued payroll obligations	8,125	6,149
Deferred income and allowances on sales to sell-through distributors	11,656	10,553
Total current liabilities	56,913	53,093
Long-term liabilities	18,101	18,116
Total liabilities	75,014	71,209
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, 115,529,000 and 115,500,000 shares issued and outstanding	1,155	1,155
Paid-in capital	621,986	621,170
Accumulated other comprehensive loss	(501)	(261)
Accumulated deficit	(262,624)	(264,514)
Total stockholders' equity	360,016	357,550
Total liabilities and stockholders' equity	$435,030	$428,759

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

Table of Contents

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

	Three Months Ended	
	March 30, 2013	March 31, 2012
Cash flows from operating activities:		
Net Income (loss)	$1,890	$(7,714)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	5,066	5,027
Change in deferred income tax provision	367	7,520
Stock-based compensation	1,912	1,624
Changes in assets and liabilities:		
Accounts receivable, net	(9,037)	(15,820)
Inventories	439	433
Prepaid expenses and other assets	(361)	(3,367)
Accounts payable and accrued expenses (includes restructuring)	872	978
Accrued payroll obligations	1,976	(1,999)
Deferred income and allowances on sales to sell-through distributors	1,103	3,220
Other liabilities	(165)	155
Net cash provided by (used in) operating activities	4,062	(9,943)
Cash flows from investing activities:		
Proceeds from sales or maturities of marketable securities	21,890	15,018
Purchase of marketable securities	(30,650)	(6,024)
Capital expenditures	(3,054)	(3,442)
Other investing activities, primarily time based software licenses	(4,194)	(1,082)
Net cash (used in) provided by investing activities	(16,008)	4,470
Cash flows from financing activities:		
Net share settlement upon issuance of RSUs	(109)	(376)
Purchase of treasury stock	(2,452)	(1,558)
Net proceeds from issuance of common stock	1,465	2,491
Net cash (used in) provided by financing activities	(1,096)	557
Net (decrease) in cash and cash equivalents	(13,042)	(4,916)
Beginning cash and cash equivalents	118,536	141,423
Ending cash and cash equivalents	$105,494	$136,507
Supplemental disclosures of non-cash investing and financing activities:		
Unrealized (loss) gain related to marketable securities, net, included in Accumulated other comprehensive loss	$(75)	$(65)
Income taxes paid, net of refunds	$852	$329
Distribution of deferred compensation from trust assets	$18	$65

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

Table of Contents

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

Note 1 - Basis of Presentation and Significant Accounting Policies:

The accompanying Condensed Consolidated Financial Statements are unaudited and have been prepared by Lattice Semiconductor Corporation ("Lattice," the "Company," "we," "us" or "our") pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC") and in our opinion include all adjustments, consisting of normal recurring adjustments, necessary for the fair statement of results for the interim periods. Certain information and footnote disclosures normally included in financial statements prepared in accordance with 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 December 29, 2012.

We report based on a 52 or 53-week fiscal year ending on the Saturday closest to December 31. Our first quarter of fiscal 2013 and first quarter of fiscal 2012 ended on March 30, 2013 and March 31, 2012, respectively. All references to quarterly or three months ended financial results are references to the results for the relevant fiscal period.

Principles of Consolidation

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

Cash Equivalents and Marketable Securities

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

Fair Value of Financial Instruments

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

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

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

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

Table of Contents

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

Foreign Exchange and Translation of Foreign Currencies

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

Derivative Financial Instruments

At March 30, 2013 and December 29, 2012, we had open foreign exchange contracts of 100,000,000 JPY and 150,000,000 JPY, respectively. The contracts outstanding at March 30, 2013 and December 29, 2012 were settled in April 2013 and January 2013, respectively. Although such hedges mitigate our foreign currency exchange rate exposure from an economic perspective, they were not designated as "effective" hedges for accounting purposes and are adjusted to fair value through earnings, with an impact of less than $0.1 million for the periods reported. We do not hold or issue derivative financial instruments for trading or speculative purposes.

Concentration Risk

Potential exposure to concentration risk consists primarily of cash and cash equivalents, marketable securities, trade receivables and supply of wafers for our new products. We place our investments primarily through three financial institutions and mitigate the concentration of credit risk by limiting the maximum portion of the investment portfolio which may be invested in any one instrument. The Company's investment policy defines approved credit ratings for investment securities. Investments on-hand consisted primarily of money market instruments, “AA” or better corporate notes and bonds, and 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 and our credit and collection process. Accounts receivable do not bear interest, and are shown net of allowances for doubtful accounts of $1.2 million and $1.1 million at March 30, 2013 and December 29, 2012, respectively. We perform credit evaluations for essentially all customers and secure transactions with letters of credit or advance payments where appropriate. We regularly review our allowance for doubtful accounts and the aging of our accounts receivable. Write-offs for uncollected trade receivables have not been significant to date.

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

Revenue Recognition and Deferred Income

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

Revenue from sales to original equipment manufacturers ("OEMs") or sell-in distributors is recognized upon shipment. Revenue from sales by our sell-through distributors is recognized at the time of reported resale. Under both types of revenue recognition, persuasive evidence of an arrangement exists, the price is fixed or determinable, title has transferred, collection of resulting receivables is reasonably assured, there are no remaining customer acceptance requirements and no remaining significant performance obligations.

Table of Contents

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

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

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

	March 30, 2013	December 29, 2012
Inventory valued at published list price and held by sell-through distributors with right of return	$39,093	$38,623
Allowance for distributor advances	(22,000)	(22,450)
Deferred cost of sales related to inventory held by sell-through distributors	(5,437)	(5,620)
Total Deferred income and allowances on sales to sell-through distributors	$11,656	$10,553

We expect a significant portion of our revenue in fiscal 2013 will be from sell-through distributors. For the first quarter of the fiscal year 2013 and the fiscal year ended 2012, resale of product by sell-through distributors as a percentage of our total revenue was 49%, and 61%, respectively.

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

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

Use of Estimates

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

Note 2 - New Accounting Pronouncements:

In February 2013, the Financial Accounting Standards Board ("FASB") issued amendments to the FASB Accounting Standards Codification relating to the reporting of reclassifications out of accumulated other comprehensive income. The amendments require an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, an entity is required to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income, but only if the amount reclassified is required under U.S. GAAP to be reclassified to net income in its entirety in the same reporting period. For other amounts that are not required under U.S. GAAP to be reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures required under U.S. GAAP that provide additional detail about those amounts. We were required to adopt these amendments in the first quarter of fiscal 2013.

Table of Contents

Note 3 - Net income (loss) Per Share:

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

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

	Three Months Ended March 30, 2013	March 31, 2012
Basic and diluted Net Income (loss)	$1,890	$(7,714)
Shares used in basic Net Income (loss) per share	115,391	118,174
Dilutive effect of stock options, RSUs and ESPP shares	1,323	—
Shares used in diluted Net Income (loss) per share	116,714	118,174
Basic Net Income (loss) per share	$0.02	$(0.07)
Diluted Net Income (loss) per share	$0.02	$(0.07)

The computation of diluted Net income per share for the three months ended March 30, 2013, includes the effects of stock options, RSUs and ESPP shares aggregating approximately 1.3 million shares, as they are dilutive, and excludes the effects of stock options, RSUs and ESPP shares aggregating approximately 7.4 million shares, as they are antidilutive. The computation of diluted Net loss per share for the three months ended March 31, 2012 excludes the effects of stock options, RSUs and ESPP shares aggregating approximately 12.3 million shares, as they are antidilutive. Stock options, RSUs and ESPP shares are considered antidilutive when the aggregate of exercise price, unrecognized stock-based compensation expense and excess tax benefit are greater than the average market price for our common stock during the period or when the Company is in a net loss position. Stock options and RSUs that are dilutive in the first quarter of fiscal 2013 could become antidilutive in the future.

Note 4 - Marketable Securities:

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

	March 30, 2013	December 29, 2012
Short-term marketable securities:		
Maturities of less than five years	$73,550	$64,865
Long-term marketable securities:		
Maturities of more than ten years	4,717	4,717
Total marketable securities	$78,267	$69,582

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

	March 30, 2013	December 29, 2012

Short-term marketable securities:		
Corporate and government bonds and notes and commercial paper	$73,550	$64,865
Long-term marketable securities:		
Federally-insured or FFELP guaranteed student loans	4,717	4,717
Total marketable securities	$78,267	$69,582

10

Table of Contents

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

	March 30, 2013			December 29, 2012		
	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	$5,700	$4,717	AA+	$5,700	$4,717	AA+
Total auction rate securities	$5,700	$4,717		$5,700	$4,717	

At March 30, 2013, 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. 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 ("FFELP"). The Company intends to sell its auction rate securities as markets for these securities resume or reasonable offers become available.

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

	Fair value measurements as of March 30, 2013				Fair value measurements as of December 29, 2012			
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
Short-term marketable securities	$73,550	$73,550	$—	$—	$64,865	$64,865	$—	$—
Long-term marketable securities	4,717	—	—	4,717	4,717	—	—	4,717
Foreign currency forward exchange contracts	(17)	—	(17)	—	(5)	—	(5)	—
Total fair value of financial instruments	$78,250	$73,550	$(17)	$4,717	$69,577	$64,865	$(5)	$4,717

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

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

Level 3 instruments include unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Our auction rate securities are classified as Level 3 instruments. Management uses a combination of the market and income approach to derive the fair value of auction rate securities, which include third party valuation results, investment broker provided market information and available information on the credit quality of the underlying collateral. As a result, the determination of fair value for Level 3 instruments requires significant management judgment and subjectivity. Our Level 3 instruments are classified as Long-term marketable securities on our Condensed Consolidated Balance Sheet and are entirely made up of auction rate securities that consist of student loan asset-backed notes. Such loans are insured by the federal government or guaranteed by the FFELP. Fair value measurement may be sensitive to various unobservable inputs such as the ability of students to repay their loans, or change in the provision of government guarantees policy toward guaranteeing loan repayment. If students are unable to pay back their loans or the government changes its policy, our investments may be further impaired.

Table of Contents

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

During the three months ended March 30, 2013 and March 31, 2012, the following changes occurred in our Level 3 instruments (in thousands):

	Three Months Ended	
	March 30, 2013	March 31, 2012
Beginning fair value of Long-term marketable securities	$4,717	$6,946
Fair value of securities sold or redeemed	—	—
Ending fair value of Long-term marketable securities	$4,717	$6,946

In accordance with ASC 320, "Investments-Debt and Equity Securities," the Company recorded an unrealized loss of less than $0.1 million during the three months ended March 30, 2013 and an unrealized loss of less than $0.1 million during the three months ended March 31, 2012, on certain Short-term marketable securities (Level 1 instruments), which has been recorded in Accumulated other comprehensive income (loss). Future fluctuations in fair value related to these instruments that the Company deems to be temporary, including any recoveries of previous write-downs, would be recorded to Accumulated other comprehensive loss. If 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 loss or the previously reported other-than-temporary impairment charge.

Note 6 - Inventories (in thousands):

	March 30, 2013	December 29, 2012
Work in progress	$28,410	$27,915
Finished goods	15,345	16,279
Total inventories	$43,755	$44,194

Note 7 - Business Combinations and Goodwill:

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

Inventories were recorded at their estimated fair value ("step-up"), which represented an amount equivalent to estimated selling prices less fulfillment costs and a normative selling profit. The step-up of $0.3 million was charged to Acquisition related charges during the six months ended June 30, 2012, approximating the estimated inventory turn-over for this particular product.
In July 2011, the Company acquired substantially all of the assets of Rise Technology Development Limited ("Rise"), for $1.0 million in cash. Of the purchase price, $0.9 million was allocated to Goodwill and the remaining to net tangible assets acquired.

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

Note 8 - Intangible Assets and Acquisition Related Charges:

Table of Contents

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

	Weighted Average Amortization Period (in years)	Gross	Accumulated Amortization		Intangible assets, net of amortization March 30, 2013
Developed technology	7	$10,700	$(1,974	)	$8,726
Customer relationships	5.5	7,800	(1,832	)	5,968
Total	6.3	$18,500	$(3,806	)	$14,694

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

Acquisition related charges, including amortization of intangible assets in the Consolidated Statements of Operations and Comprehensive Income (Loss) also include severance and professional fees related to the acquisition, as well as the amortization of the stepped up value of inventory collectively amounting to $0.0 million and $1.0 million in the first quarter of the fiscal years 2013 and 2012, respectively.

Table of Contents

Note 9 - Changes in Stockholders' Equity and Accumulated other Comprehensive loss (in thousands):

	Common stock	Paid-in capital	Treasury stock	Accumu-lated deficit	Accumu-lated other compre-hensive loss	Total
Balances, December 29, 2012	$1,155	$621,170	$—	$(264,514)	$(261)	$357,550
Net Income for the three months ended March 30, 2013	—	—	—	1,890	—	1,890
Unrealized loss related to marketable securities, net	—	—	—	—	(75)	(75)