

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

(Mark One)

- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE FISCAL YEAR ENDED JANUARY 2, 2021
- 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)

Delaware
(State of Incorporation)
5555 NE Moore Court, Hillsboro, Oregon
(Address of principal executive offices)

93-0835214
(I.R.S. Employer Identification Number)
97124-6421
(Zip Code)

Registrant's telephone number, including area code: **(503) 268-8000**

Securities registered pursuant to Section 12(b) of the Act:

| <u>(Title of Class)</u> | <u>(Trading Symbol)</u> | <u>(Name of each exchange on which registered)</u> |
|-------------------------------|-------------------------|--|
| Common Stock, \$.01 par value | LSCC | 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 No

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 No

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes No

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

Large accelerated filer Accelerated filer Non-accelerated filer
Smaller reporting company Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

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

Aggregate market value of voting stock held by non-affiliates of the registrant as of June 27, 2020 \$ 3,252,740,803
Number of shares of common stock outstanding as of February 19, 2021 136,532,920

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 2020 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.

LATTICE SEMICONDUCTOR CORPORATION

ANNUAL REPORT ON FORM 10-K

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Note Regarding 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. These involve estimates, assumptions, risks, and uncertainties. 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 "anticipate," "believe," "could," "estimate," "expect," "intend," "plan," "possible," "predict," "projects," "may," "will," "should," "continue," "ongoing," "future," "potential," and similar words or phrases to identify forward-looking statements.

Forward-looking statements include, but are not limited to, statements about: our opportunities to increase our addressable market; our expectations and strategies regarding market trends and opportunities, including market segment drivers such as 5G infrastructure deployments, cloud and enterprise servers, client computing platforms, industrial Internet of Things, factory automation, automotive electronics, smart homes and prosumers; our beliefs about who we may compete with and how we are differentiated from those competitors; our future investments in research and development and our research and development expense efficiency; whether we will experience seasonality or cyclical; our expectations about our patent portfolio, including the expiration of patents, whether, when and where we will make future filings, and the value of the patents generally and to our business; our ability to attract and retain personnel and their importance to our performance; our target or expected financial performance and our ability to achieve those results; future financial results or accounting treatments; future impacts of the COVID-19 pandemic, including as a result of actions by governments, businesses, and individuals in response to the situation, on consumer, industrial, and financial markets, our business operations, supply chain and partners, financial performance, results of operations, financial position, and the achievement of our strategic objectives; our use of cash; our judgments involved in accounting matters, including revenue recognition, inventories and cost of revenue and income taxes; our investments in research and development; the continued effectiveness of our internal controls over financial reporting; our expectations regarding product offerings; whether we will consider and act upon acquisition opportunities to extend our product, technology and product offerings; our expectations regarding our customer base; the expected costs of our restructuring plans; our expectations regarding taxes, including unrecognized tax benefits, and tax adjustments and allowances; our beliefs regarding the adequacy of our liquidity, capital resources and facilities; and our beliefs regarding legal proceedings.

These forward-looking statements are based on estimates and assumptions that are subject to risks and uncertainties that could cause actual results to differ materially from those statements expressed in the forward-looking statements. The key factors, among others, that could cause our actual results to differ materially from the forward-looking statements include the effects of the COVID-19 pandemic and the actions by governments, businesses, and individuals in response to the situation, the effects of which may give rise to or amplify the risks associated with many of these factors listed here; global economic conditions and uncertainty, including as a result of trade-related restrictions or tariffs, the concentration of our sales in certain end markets, particularly as it relates to the concentration of our sales in the Asia Pacific region, market acceptance and demand for our existing and new products, market and technology trends, our ability to license or sell our intellectual property, any disruption of our distribution channels, the impact of competitive products and pricing, the effect of any downturn in the economy on capital markets and credit markets, unanticipated taxation requirements or positions of the U.S. Internal Revenue Service or other taxing authority, unanticipated effects of tax reform, or unexpected impacts of accounting guidance. In addition, actual results are subject to other risks and uncertainties that relate more broadly to our overall business, including those more fully described herein and that are otherwise described from time to time in our filings with the Securities and Exchange Commission ("SEC"), including, but not limited to, the items discussed in Part I, Item 1A, "Risk Factors," in this Annual Report on Form 10-K.

You should not unduly rely on forward-looking statements because our actual results could differ materially from those expressed by us. In addition, any forward-looking statement applies only as of the date of this filing. We do not plan to, and undertake no obligation to, update any forward-looking statements to reflect new information or new events, circumstances or developments, or otherwise.

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PART I

Item 1. Business

Overview

Lattice Semiconductor Corporation and its subsidiaries ("Lattice," the "Company," "we," "us," or "our") develop technologies that we monetize through differentiated programmable logic semiconductor products, system solutions, design services, and licenses. Lattice is the low power programmable leader. We solve customer problems across the network, from the Edge to the Cloud, in growing communications, computing, industrial, automotive, and consumer markets. Our technology, long-standing relationships, and commitment to world-class support enable our customers to create a smart, secure, and connected world.

Our field programmable gate array ("FPGA") devices enable us to provide our customers with a strong, growing base of control, connect, and compute technologies. We believe there are multiple growth areas that will allow us to increase our addressable market. In particular, we believe there are several emerging trends in servers, infrastructure, and smart devices that are opportunities for Lattice:

- With the growth of hyperscale data centers, our "processor agnostic" solutions are ideal for control and connect functions in enterprise and data center server applications.
- With the expected continued communications infrastructure build-out from 5G deployment, Lattice solutions are being adopted to control and connect a variety of functions in critical systems.
- With the increase in electrification and the proliferation of sensors in smart factories, smart homes, and automobiles, our low power, small form factor solutions are ideal for everything from battery powered systems and sensor applications to embedded vision.
- With the increase in artificial intelligence, machine learning, and a multitude of applications at the network edge, Lattice devices support applications that often act independently and need to make instantaneous decisions. Our solutions provide the computing and learning capabilities to perform functions like face detection, image recognition, and video analytics.
- With the demand for more hardware security in the communications, computing, industrial, automotive, and consumer markets, our hardware root of trust devices provide platform firmware resilience. This provides a secure boot for systems that are dependent on processors.

To serve these emerging needs, customer solutions require low power, memory bandwidth, processing power, and the ability to integrate complex functionality into a highly compact footprint. These requirements align to the capabilities of our FPGA devices. Our flexible, low power, small form factor, easy to use FPGAs put us in a unique position to meet these growing market needs.

Our Markets and Customers

We sell our products globally in three end market groups: Communications and Computing, Industrial and Automotive, and Consumer. We also provide Intellectual Property ("IP") licensing and services to these end markets.

In the **Communications and Computing Market**, our solutions play key roles in computing systems such as servers and clients, 5G wireless infrastructure, switches / routers, and other related applications.

Our Communications and Computing customers need to address a variety of challenges.

- As client compute devices become smaller and smarter, there is a need for small form factor devices with power efficiency to interface with a variety of sensors and add intelligence.
- As server architectures become increasingly complex, customers need simplified control logic, enhanced hardware platform security, system status monitoring, and rigorous power and thermal management.
- Networks typically require progressively higher bandwidth and increased reliability as more data is demanded by consumer and other connected devices. Bandwidth demands are also driven by the rapid transition to cloud-based infrastructure.
- As wireless cell sites become more compact without fans, there is a growing requirement for smaller form factors optimized for low power consumption.

Lattice FPGAs solve these customer problems. Our FPGAs are optimized for input/output ("I/O") expansion, low cost per look-up table, hardware acceleration, and hardware management. Our FPGAs consume power at very low rates, which reduces operating costs and supports the continued miniaturization of consumer devices. Their small form factor enables higher functional density in less space. Finally, our FPGAs are I/O rich, which allows for more connections with system application specific integrated circuits ("ASICs") and application specific standard products ("ASSPs").

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Examples of where our products enable intelligent automation in the **Industrial and Automotive Market** include industrial Internet of Things ("IoT"), machine vision, robotics, factory automation, driver assistance, and automotive infotainment.

Our Industrial and Automotive customers face numerous challenges:

- As smart factories develop, sensors are proliferating and machine vision is becoming higher definition, in turn requiring increasing amounts of data to be gathered, connected, and processed.
- Cars, trucks, and trains are also becoming smarter and more connected. Drivers and passengers are demanding better in-cabin experiences including entertainment, diagnostics, and enhanced safety — often involving multiple displays, cameras, and sensors.
- As factories and automotive manufacturers continue their evolution of computerization, power reduction, faster time to design-in and market, lower costs are becoming increasingly normal.
- Mission-critical defense applications demand increasing reliability, while being optimized for size, weight, power, and cost ("SWaP-C").

Our product portfolio helps solve these challenges. Our small-sized, low-power FPGAs not only provide the I/O expansion, bridging, connectivity, and processing inherent in FPGAs, but they also form the backbone of several integrated solutions, including motor control, complete High Definition ("HD")

camera and DVR solutions on a single FPGA device, and Human-Machine Interfaces ("HMI") on a chip.

In the **Consumer Market**, you can find our solutions making products smarter and thinner, including: smart home devices, prosumer devices, sound bars, high end projectors, Augmented Reality ("AR") / Virtual Reality ("VR"), and wearables.

Our Consumer customers are driven by the need to deliver richer and more responsive experiences. They typically require:

- More intelligence and computing power. Products need to be "always-on" and "always-aware."
- Longer battery lives for handheld devices and reduced energy consumption for plugged-in devices.
- Real-time transmission of higher resolution video content on larger screen sizes.
- Fast design cycles. Products must be quickly and easily differentiated.
- Smaller form factors. Products need to lay flatter on the wall or fit more easily in people's pockets.
- Various levels of video processing and analytics.

Lattice FPGAs bring multiple benefits to these customers. An FPGA's parallel architecture enables faster processing than competing devices, such as microcontrollers, allowing for a user experience with shorter pauses and fewer delays. Our FPGAs are among the lowest power consumption in the industry, enabling the application processor and other high-power components to remain dormant longer, resulting in longer battery life. Finally, with some of the industry's smallest packages, we enable thinner end products.

Our proprietary solutions help our customers get their products to market faster than typical development cycles. With re-programmability and flexibility, our FPGAs inherently allow our customers to have quicker product development. The time-to-market advantages of Lattice's solutions are critical given the shorter product life cycles and higher competition in our customers' end markets.

Our Products, Services, and Competition

We are focused on delivering FPGAs and related solutions to help solve our customers' problems. We also serve our customers with IP licensing and various other services.

Field Programmable Gate Arrays ("FPGAs")

FPGAs are regular arrays of logic that can be custom-configured by the user through software. This programmability allows our customers flexibility and reduced time to market while allowing us to offer the chips to many different customers in many different markets. Four product families anchor our FPGA offerings:

- **The Certus-NX and ECP families** are our "General Purpose FPGAs" and address a broad range of applications across multiple markets. They offer customers the optimal cost per gate, Digital Signal Processing ("DSP") capability, and Serialize-Deserialize ("SerDes") connectivity. ECP devices are optimized for the Communications and Computing market but also find significant use in the Industrial, Automotive, and Consumer markets.
- **The MachXO families** are known as "Control & Security FPGAs" and are optimized for platform management and security applications. They are control oriented and offer the most optimized cost per I/O, along with the lowest cost per look-up table. MachXO families are widely used across our three end market groups: Communications and Computing, Industrial and Automotive, and Consumer. Our latest generation MachXO3D and Mach-NX FPGAs come with pre-verified cryptographic functions to enable Hardware Root-of-Trust functionality, which is needed for systems to have platform firmware resiliency, i.e. the ability to protect, detect, and recover from unauthorized firmware attacks.

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- **iCE40 families** are known as "Ultra Low Power FPGAs." Their small size and ultra-low power make them the optimal products for each of our core segments where small form factor and customizing is required. The latest member of the family, iCE40 UltraPlus, is focused on IoT edge devices with its Artificial Intelligence ("AI") capabilities, low power, and small form factor.
- **Our CrossLink families** are "Video Connectivity FPGAs" and are optimized for high speed video and sensor applications. CrossLink combines the power and speed benefits of hardened video camera and display bridging cores with the flexibility of FPGA fabric. CrossLinkPlus provides users with instant-on capabilities for video display. CrossLink-NX, built on the new Lattice Nexus platform, provides the lowest power in the smallest packages in its class, higher performance, and high reliability. These products are designed for computing, industrial, automotive, and consumer markets, but also find use in communications.

To enable our customers to get to market faster we support our FPGAs with intellectual property cores, reference designs, development kits, and design software. We are investing in our design software, such as Lattice Radiant, to deliver best-in-class tools that enable predictable design convergence, and Lattice Propel for unparalleled ease in creating embedded processor-based designs. Further, we have developed integrated system-level solution stacks, such as Lattice sensAI, as well as Lattice mVision for low power embedded vision, and Lattice Sentry for implementing hardware security. We combine all of these elements to solve specific customer problems such as the need to quickly implement low power AI inferencing in Edge applications.

Depending on the application, we may compete with other FPGAs vendors, as well as producers of ASICs, ASSPs, and microcontrollers. We believe that Lattice has developed products and solutions with differentiated advantages.

Legacy Semiconductor Products

We also sell Video Connectivity ASSPs, although we are not developing new products in this area and their support requirements are minimal.

Intellectual Property (IP) Licensing and Services

Lattice has a broad set of technological capabilities and many U.S. and international patents. We generate revenue from our technology portfolio via upfront fees and on-going royalty payments through the following activities:

- **Standard IP Licensing** - these activities include our participation in two consortia for the licensing of High-Definition Multimedia Interface ("HDMI") and Mobile High-Definition Link ("MHL") technologies to customers who adopt the technology into their products and voluntarily report their usage and royalties. The royalties are split among consortium members, including us.
- **IP Core Licensing** - some customers need Lattice's technology for specific functions or features, but for various reasons are not able to use our silicon solutions. In those cases, we may license our IP cores, which they can integrate into their own ASICs. In contrast to the use of consortia, these licensing activities are generally performed internally.
- **Patent Monetization** - we sell certain patents from our portfolio generally for technology that we are no longer actively developing. The revenue from these sales generally consists of upfront payments and potential future royalties.
- **IP Services** - projects and design services for customers who wish to develop specific solutions that harness our proven technology and expertise.

Research and Development

We place a substantial emphasis on new product development, where return on investment is the key driver. We believe that continued investment in research and development is required to maintain and improve our competitive position. Our research and development activities are focused on new proprietary products, advanced packaging, existing product enhancements, software development tools, soft IP cores and application focused solutions. These research and development activities occur primarily at our sites in Hillsboro, Oregon; San Jose, California; Shanghai, China; and Muntinlupa City, Philippines.

We believe that a continued commitment to research and development is essential to maintaining product leadership and providing an increased cadence of innovative new product offerings and, therefore, we expect to continue to make significant future investments in research and development.

Operations

We do not manufacture our own silicon products. We maintain strategic relationships with large, established semiconductor foundries to source our finished silicon wafers. This strategy allows us to focus our internal resources on product and market development and eliminate the fixed cost of owning and operating semiconductor manufacturing facilities. We are able to take advantage of the ongoing advanced process technology development efforts of semiconductor foundries and apply those technologies when they become most economically beneficial to us and to our customers.

We rely on third party vendors to provide cost-effective and efficient supply chain services. Among other activities, these outsourced services relate to direct sales logistics, which include order fulfillment, inventory management and warehousing, and the shipment of inventory to third party distributors.

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[Wafer Fabrication](#)

Lattice partners with Samsung Semiconductor ("Samsung") to develop and manufacture the first low-power FPGA on 28nm FDS technology, which is used in our latest Nexus FPGA platform of products. We partner with United Microelectronics Corporation ("UMC") and its subsidiary United Semiconductor Japan Corporation ("USJC") to manufacture our products on its 130nm, 90nm, 65nm & 40nm CMOS process technologies, as well as embedded flash memory in these process nodes. Taiwan Semiconductor Manufacturing Company Ltd. ("TSMC") manufactures our 350nm, 130nm, 55nm and 40nm products. Seiko Epson ("Epson") manufactures our 500nm, 350nm, 250nm and 180nm products.

We source silicon wafers from our foundry partners, Samsung, UMC, USJC, TSMC, and Epson, 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](#)

All of our assembly and test operations are performed by industry-leading outsourced assembly & test suppliers ("OSAT's") with our primary supplier being Advanced Semiconductor Engineering, Inc. ("ASE"). We perform certain test operations as well as reliability and quality assurance processes internally during the development process. We have achieved and maintained ISO9001:2015 Quality Management Systems Certification and released a line of products qualified to the AEC-Q100 Reliability Standard in support of Automotive product offerings in addition to ISO26262 certification on both automotive products and software.

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 packages. We have qualified two major assembly partners, ASE and Amkor Technology ("Amkor") and are second sourced where volume and customer requirements are necessary. All ASE and Amkor manufacturing of our products is in Asia. 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" ("RoHS"). A select and growing subset of our RoHS compliant products are also offered with a "Halogen Free" material set.

[Testing \(Sort and Final Test\)](#)

We electrically sort test the die on most wafers prior to shipment for assembly. Wafer sort testing is primarily performed by Amkor in Japan and our second source King Yuan Electronics Co. ("KYEC") in Taiwan.

Following assembly, but prior to customer shipment, each product undergoes final testing and quality assurance procedures. Final testing is performed by ASE and Amkor.

Sales and Revenue

We generate revenue by monetizing our technology and patents through product and technology sales. This involves the channel and direct sales of silicon-based products, as well as the licensing or sale of intellectual property that we have developed or acquired, some of which we use in our products, and certain design services that we may provide.

[Sales and Customers](#)

We primarily sell our products to customers from Lattice Semiconductor Corporation or our wholly-owned subsidiary, Lattice SG Pte. Ltd. Independent distributors are significant customers, and a substantial portion of our sales are made to this channel. Additionally, we sell both directly and through a network of independent manufacturers' representatives. We also employ a direct sales management and field applications engineering organization to support our end customers and indirect sales resources. End customers for our products are primarily OEMs in the Communications and Computing, Industrial and Automotive, and Consumer end markets. Our sales team uses our position within these OEMs to drive multi-generation design wins and leverages our distribution partners to grow our broad customer base.

We provide global technical 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.

In fiscal years 2020, 2019, and 2018, sales to distributors accounted for approximately 83%, 82%, and 83%, respectively, of our net revenue. We depend on our distributors to sell our products to end customers, complete order fulfillment, and maintain sufficient inventory of our products. Our distributors also provide technical support and other value-added services to our end customers. We have two global distributors. We also have regional distribution in Asia, Japan, and Israel, and we sell through three major on-line distributors. Revenue from foreign sales as a percentage of total revenue was 89%, 89%, and 90% for fiscal 2020, 2019, and 2018, respectively. We assign revenue to geographies based on ship-to location of our customers. Both foreign and domestic sales are denominated in U.S. dollars.

Backlog

Our backlog consists of orders from distributors and certain Original Equipment Manufacturers ("OEMs") that require delivery within the next year. Historically, our backlog has not been a predictor of future sales or customer demand for the following reasons:

- Purchase orders, consistent with common industry practices, can generally be revised or canceled up to 30 days before the scheduled delivery date without significant penalty.
- A sizable portion of our revenue comes from our "turns business," where the product is ordered and delivered within the same quarter.

Seasonality

We may periodically experience variability in our sales volumes and financial results due to seasonal trends in the end markets we serve, the cyclical nature of the semiconductor industry, and general economic conditions.

Intellectual Property, Patents, and Licensing

We seek to protect our products, technologies, and intellectual property primarily through patents, trade secrets, copyrights, trademark registrations, licensing restrictions, confidentiality agreements, and other approaches designed to protect proprietary information. We hold numerous United States and international patents and have patent applications pending in the United States and internationally. In addition to protecting innovations designed into our products, our ownership and maintenance of patents is an important factor in the determination of our share of the royalties for the HDMI standard. Our current patents will expire at various times between 2021 and 2039, subject to our payment of periodic maintenance fees. We believe that our patents have value, and we expect to file future patent applications in both the United States and abroad on significant inventions, as we deem appropriate. We have acquired various licenses from third parties to certain technologies that are implemented in IP cores or embedded in our products. These licenses support our continuing ability to make and sell these products to our customers. While our various IP rights are important to our success, we believe our business as a whole is not materially dependent on any particular patent or license, or any particular group of patents or licenses.

Human Capital Management

We provide a safe and positive work environment for our employees that emphasizes respect for individuals and ethical conduct, learning and development, facilitated by a direct employee engagement model. The health and safety of our employees is of utmost important to us. During the COVID-19 pandemic, we have taken actions to safeguard the health and well-being of our employees and our business. We implemented social distancing policies at our locations around the world including working from home and eliminating substantially all travel. Recognizing and respecting our global presence, we strive to maintain a diverse and inclusive workforce everywhere we operate. As of January 2, 2021, we had 746 employees worldwide.

We believe our employees are the foundation of our success and that our future growth depends, in part, on our ability to continue to attract and retain key technical, sales, and management personnel, particularly highly-skilled engineers involved in the design, development, and support of new and existing products and processes. In order for us to attract the best talent, we provide a collaborative, diverse, inclusive and innovative work environment, competitive compensation, and recognition to give our employees the opportunity to grow. We are focused on developing diverse teams and continuing to build an inclusive culture that inspires leadership, encourages innovative thinking, and supports the development and advancement of all.

Our human capital management objectives include identifying, recruiting, incentivizing, and integrating our existing and future employees. We strive to attract and retain talented employees by offering competitive compensation and benefits that support their health, financial and emotional well-being. Our compensation philosophy is based on rewarding each employee's individual contributions and striving to achieve equal pay for equal work. We use a combination of fixed and variable pay including base salary, bonuses, performance awards and stock-based compensation. The principal purposes of our equity incentive plans are to attract, retain and motivate employees through the granting of stock-based compensation awards. We offer employees benefits that vary by country and are designed to address local laws and cultures and to be competitive in the marketplace.

Corporate Information and Public Information Availability

Our corporate headquarters are located at 5555 NE Moore Court, Hillsboro, Oregon 97124, and our website is 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. Our common stock trades on the NASDAQ Global Select Market under the symbol LSCC.

We make available, free of charge through the Investor Relations section of our website at ir.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 NE Moore Court, Hillsboro, Oregon 97124, telephone (503) 268-8000. Our SEC filings are also available at the SEC's website at www.sec.gov.

Our investor relations website also provides notifications of news or announcements regarding our financial performance and other items that may be material or of interest to our investors, including SEC filings, press releases, earnings releases, and webcasts of our earnings calls. Further, corporate governance information, including our corporate governance policies, director code of ethics, code of conduct, board committee charters, conflict minerals report and conflict minerals policy, is also available on the investor relations section of our website.

The content on any website referred to in this filing is not incorporated by reference into this filing unless expressly noted otherwise.

ITEM 1A. Risk Factors

The following risk factors and other information included in this Annual Report should be carefully considered in their entirety before making an investment decision relating to our common stock. If any of the risks described below occur, our business, financial condition, operating results, and cash flows could be materially adversely affected, and the trading price of our common stock could decline. 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 materially adversely affect our business, financial condition, and operating results, particularly in light of the rapidly changing nature of the COVID-19 pandemic containment measures and the related impacts to economic and operating conditions.

Risk Factor Summary

Factors Related to Economic, Legal, Regulatory & Political Business Conditions

- The impact of the COVID-19 pandemic on our business.
- Economic, legal, regulatory, political, and business conditions related to our global business.
- The impact of tariffs, trade sanctions or similar actions on our business.

Factors Related to Manufacturing our Products

- The concentration of subcontractors that we rely on to supply and fabricate silicon wafers for our semiconductor products.
- Our achievement of continued yield improvement.
- The impacts of shortages in, or increased costs of, wafers and other materials.
- Potential warranty claims and other costs related to our products.
- Material change in the agreements governing encryption keys that could restrict product shipment or significantly increase the cost to track products throughout the distribution chain.

Factors Related to Intellectual Property and Litigation

- Fluctuations in our revenue and margins caused by the intellectual property licensing component of our business strategy.
- Material fluctuations in our revenue and gross margins caused by our sale of patents and intermittent significant licensing transactions.
- The impact of actual and potential litigation and unfavorable results of legal proceedings on our business.
- Variability in our share of adopter fees and royalties for the HDMI standard as a result of our evolving participation in the HDMI standard.
- Our ability to protect our new and existing intellectual property rights.

Factors Related to Overall General Business & Operations

- Proper functioning of our internal processes and information technology systems, including in response to data breaches, cyber-attacks, or cyber-fraud.
- Goodwill impairments and other impairments under U.S. GAAP that may impact our business.
- Changes to financial accounting standards applicable to us and any related changes to our business practices.
- Exposure to unanticipated tax consequences as a result of changes in effective tax rates, tax laws and our global organizational structure and operations.
- Weakness in our internal control over financial reporting.
- Our ability to compete with others to attract and retain key personnel, and any loss of, or inability to attract, such personnel.
- Limitations to our flexibility caused by our outstanding indebtedness.
- Our failure to adequately foresee and insure against risks related to our business.

Factors Related to Our Markets and Product Development

- Cyclical market patterns and potential downturns in our industry or our end markets.
- Our ability to develop and introduce new products that achieve customer and market acceptance.
- Competition with companies that have significantly greater resources than us and numerous other product solutions.
- Our reliance on independent contractors and third parties to provide key services in our product development and operations.

Factors Related to Our Sales and Revenue

- Our dependence on our distributors and a concentrated group of end customers.
- Fluctuations in and the unpredictability of our business and our sales cycles.
- Accounting requirements related to sales through our distribution channel.

Factors Related to Strategic Transactions

- Disruption in and impacts of acquisitions, divestitures, strategic investments and strategic partnerships on our business.

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Factors Related to Economic, Legal, Regulatory & Political Business Conditions

The COVID-19 pandemic could adversely affect our business, results of operations, and financial condition in a material way.

COVID-19 has spread internationally and been declared a pandemic, affecting the populations of the United States as well as many countries around the world. The outbreak has resulted in significant governmental measures being implemented to control the spread of COVID-19, including, among others, restrictions on travel, manufacturing and the movement of employees in many regions of the world, and the imposition of remote or work-from-home mandates in many of our offices, including in the United States, the Philippines and, for a time, China. The majority of our products are manufactured, assembled, and tested by third parties in Asia. In addition, we rely on third party vendors for certain logistics and shipping operations throughout the world, including in Malaysia, Singapore, South Korea, Japan, and Taiwan. We also have other operations in China, the Philippines, and the United States. If the remote or work-from-home conditions in any of our offices continue for an extended period of time, we may experience delays in product development, a decreased ability to support our customers, reduced design win activity, and overall lack of productivity.

Pandemics and epidemics such as the current COVID-19 outbreak or other widespread public health problems could negatively impact our business. If, for example, the COVID-19 pandemic continues to progress in ways that significantly disrupt the manufacture, shipment, and buying patterns of our products or the products of our customers, this may materially negatively impact our operating results, including revenue, gross margins, operating margins, cash flows and other operating results, and our overall business. Our customers may also experience closures of their manufacturing facilities or inability to obtain other components, either of which could negatively impact demand for our solutions. The COVID-19 pandemic has negatively impacted the overall economy and, as a result of the foregoing, could negatively impact our operating results and may do so in a material way. In particular, the COVID-19 pandemic may increase or change the severity of our other risks reported in this Annual Report on Form 10-K, including that:

- Our subcontractor suppliers who manufacture silicon wafers, packaging and testing to deliver our semiconductor products may be unable to meet delivery expectations to meet customer demand;
- Our distributors and customers may experience adverse performance and any reduction in the use of our products by our end customers could harm our sales and significantly decrease our revenue;
- The semiconductor industry could experience a cyclical downturn, which could cause a meaningful reduction in demand for our products and adversely affect our operating results;
- Countries may adopt tariffs and trade sanctions or similar actions;
- We may be delayed in our development and introduction of new products that achieve customer and market acceptance;
- Our operations may be disrupted if employees are unavailable due to illness, risk of illness, travel restrictions, work from home requirements, or other factors that may limit our access to key personnel or critical skills, or reduce productivity;
- Shortages in or increased costs for silicon wafers, packaging materials, testing and shipping could adversely impact our gross margin and lead to

- reduced revenue;
- We may experience difficulty in maintaining the uninterrupted operation of our information technology systems, or be exposed to increased risk of a cyber-security incident or fraud, due to an increased reliance on remote work;
- We may incur impairments of goodwill and otherwise as required under U.S. GAAP;
- Our outstanding indebtedness could reduce our strategic flexibility and liquidity and may have other adverse effects on our results of operations.

The impact of COVID-19 may exacerbate the risk factors listed in this Annual Report on Form 10-K, or cause them to change in importance. Developments related to the pandemic and to vaccine rollout have been rapidly changing, and additional impacts and risks may arise that we are not aware of or able to appropriately respond to currently. The ultimate impact of the COVID-19 pandemic on our operations and financial performance depends on many factors that are not within our control, including, but not limited to, governmental, business, and individuals' actions that have been and continue to be taken in response to the pandemic; general economic uncertainty in key global markets and financial market volatility; global economic conditions and levels of economic growth; and the pace of recovery when the COVID-19 pandemic subsides. As of the filing of this Annual Report, the extent to which the COVID-19 pandemic will affect our business is highly uncertain and dependent on future developments that are inherently unpredictable, which makes forecasting demand and providing guidance especially difficult. Accordingly, our expectations are subject to change without warning and investors are cautioned not to place undue reliance on them.

Our global business operations expose us to various economic, legal, regulatory, political, and business risks, which could impact our business, operating results and financial condition.

We have significant domestic and international operations. Our international operations include foreign sales offices to support our international customers and distributors, which account for the majority of our revenue, and operational and research and development sites in China, the Philippines, and other Asian locations. In addition, we purchase our wafers from foreign foundries; have our commercial products assembled, packaged, and tested by subcontractors located outside of the United States; and rely on an international service provider for inventory management, order fulfillment, and direct sales logistics.

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Our domestic and international business activities are subject to economic, political and regulatory risks, including volatility in the financial markets; fluctuations in consumer liquidity; changes in interest rates; price increases for materials and components; trade barriers or changes in trade policies; political instability; acts of war or terrorism; natural disasters; economic sanctions; weak economic conditions, environmental regulations; labor regulations; import and export regulations; tax or freight rates; duties; trade restrictions; interruptions in transportation or infrastructure; anti-corruption laws; domestic and foreign governmental regulations; potential vulnerability of and reduced protection for intellectual property; disruptions or delays in production or shipments; and instability or fluctuations in currency exchange rates, any of which could lead to decreased demand for our products or a change in our results of operation. Uncertainty about future political and 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.

If we fail to comply with the many laws and regulations to which we are subject, both within the United States and internationally, we may be subject to significant fines, penalties or liabilities for noncompliance, which could harm our business and financial results. For example, effective May 2018, the European Union adopted the General Data Protection Regulation ("GDPR"), which established new requirements regarding the handling of personal data and non-compliance monetary penalties of up to the higher of 20 million Euros or 4% of worldwide revenue. California also recently adopted the California Consumer Privacy Act ("CCPA"), which imposes significant fines and penalties for violations. Any inability or perceived inability to adequately comply with applicable laws or regulations, including GDPR or CCPA, could result in additional cost and liability to our business and could adversely affect our financial condition and results of operations.

Since late 2019, COVID-19 has become a global pandemic, prompting precautionary government-imposed closures of certain travel and business. The operations of customers and the Company may be affected by this and similar public health matters. Although our supply chain does not appear to be affected by this epidemic, it may lead to events outside of our control which could have a material adverse impact on our business, operating results and financial condition.

Our business could suffer as a result of tariffs and trade sanctions or similar actions.

The imposition by the United States of tariffs, sanctions or other restrictions on goods imported from outside of the United States or countermeasures imposed in response to such government actions could adversely affect our operations or our ability to sell our products globally, which could adversely affect our operating results and financial condition. The materials subject to these tariffs may impact the cost of raw materials used by our suppliers or in our customers' products. The imposition of further tariffs by the United States on a broader range of imports, or further retaliatory trade measures taken in response to additional tariffs, could increase costs in our supply chain or reduce demand of our customers' products, either of which could adversely affect our results of operations.

Our customers or suppliers could also become subject to U.S. regulatory scrutiny or export restrictions. For example, in 2019 the U.S. Justice Department filed criminal charges against one of our customers in China and imposed a licensing requirement on this customer with a policy of denial for some items, which has limited our ability to do business with this customer. In 2020, the U.S. imposed additional regulatory restrictions on the sale of U.S. controlled technology to customers in China, including establishing additional licensing requirements for the sale of U.S.-originated technology for certain applications or to companies that participate in the Chinese national security supply chain and limiting the fabrication of devices for certain Chinese companies where U.S. technology is involved in the fabrication process. Furthermore, in August 2020 the U.S. established additional licensing requirements for one of our China customers and its affiliates that limit any sales of products to that customer or for that customer's products absent a license. The U.S. government may add additional Chinese companies to its restricted entity list or impose additional licensing requirements that we may be unable to meet in a timely manner or at all. Where license requirements are imposed, there can be no assurance that the U.S. government will grant licenses to permit the continuation of business with these customers. Future sanctions similar to those imposed in the past and to those recently imposed could adversely affect our ability to earn revenue from these and similar customers. In addition, the imposition of sanctions on customers in China may cause those customers to seek domestic alternatives to our products and those of other United States semiconductor companies. Further, the Chinese government has indicated its intention to develop an unreliable entity list, which may limit the ability of companies on the list to engage in business with Chinese customers. We cannot predict what impact these and future actions, sanctions or criminal charges could have on our customers or suppliers, and therefore our business. If any of our other customers or suppliers become subject to sanctions or other regulatory scrutiny, if our customers are affected by tariffs or other government trade restrictions, or if we become subject to retaliatory regulatory measures, our business and financial condition could be adversely affected.

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Factors Related to Manufacturing our Products

We rely on a concentrated number of subcontractors to supply and fabricate silicon wafers and to perform assembly and test operations for our semiconductor products. If they are unable to do so on a timely and cost-effective basis in sufficient quantities and using competitive technologies, we may incur significant costs or delays.

We rely on a concentrated number of independent foundries in Asia to supply and fabricate silicon wafers for our semiconductor products, including Samsung Semiconductor, United Microelectronics Corporation, Taiwan Semiconductor Manufacturing, and Seiko Epson. Our success is dependent upon our ability to successfully partner with our foundry and OSAT partners and their ability to produce wafers and finished semiconductor products with competitive prices and performance attributes, including smaller process geometries. Establishing, maintaining and managing multiple foundry and OSAT relationships requires the investment of management resources and costs.

If we fail to maintain our foundry and OSAT relationships, if these partners do not provide facilities and support for our development efforts, if they are insolvent or experience financial difficulty, or if we elect or are required to change foundries or OSATs, we may incur significant costs and delays. If our foundry or OSAT partners are unable to, or do not, manufacture sufficient quantities of our products at acceptable yields, we may be required to allocate the affected products among our customers, prematurely limit or discontinue the sales of certain products, or incur significant costs to transfer products to other foundries or OSATs, which could adversely affect our customer relationships and operating results.

Our margins are dependent on our achieving continued yield improvement.

We rely on obtaining yield improvements and corresponding cost reductions in the manufacture of existing products and on introducing new products that incorporate advanced features and other price/performance factors that enable us to increase revenues while maintaining acceptable margins. To the extent such cost reductions and new product introductions do not occur in a timely manner, or that our products do not achieve market acceptance or market acceptance at acceptable pricing, our forecasts of future revenue, financial condition, and operating results could be materially adversely affected.

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

Worldwide manufacturing capacity for silicon wafers is relatively inelastic. If the demand for silicon wafers or assembly material exceeds market supply, our supply of silicon wafers or assembly material could quickly become limited or prohibitively expensive. We typically have short-term wafer supply agreements that do not ensure long-term supply or allocation commitments. A shortage in manufacturing capacity could hinder our ability to meet product demand and therefore reduce our revenue. In addition, silicon wafers constitute a material portion of our product cost. If we are unable to purchase wafers at favorable prices, our financial condition and results of operations will be adversely affected.

We may be subject to warranty claims and other costs related to our products.

In general, we 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 these are specific manufacturing defects affecting individual products or these are systematic defects that could affect numerous shipments. Inability to detect a defect could result in a diversion of our engineering resources from product development efforts, increased engineering expenses to remediate the defect, and increased costs due to customer accommodation or inventory impairment charges. On occasion, we have also repaired or replaced certain components, made software fixes, or refunded the purchase price or license fee paid by our customers due to product or software defects. Our insurance may be unavailable or inadequate to protect against these issues. If there are significant product defects, the costs to remediate such defects, net of reimbursed amounts from our vendors, if any, or to resolve warranty claims may adversely affect our financial condition and results of operations and may harm our reputation.

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A material change in the agreements governing encryption keys we use could place additional restrictions on us, or our distributors or contract manufacturers, which could restrict product shipment or significantly increase the cost to track products throughout the distribution chain.

Certain components in our products contain encryption keys used in connection with High Definition Content Protection ("HDCP"). The regulation and distribution of these encryption keys are controlled through license agreements with Digital Content Protection ("DCP"), a wholly owned subsidiary of Intel Corporation. These license agreements have been modified by DCP from time to time, and such changes could impact us, our distributors, and our customers. An important element of HDMI is the ability to implement link protection for HD, and more recently, 4K UltraHD, content. We implement various aspects of the HDCP link protection within certain parts we sell. We also, for the benefit of our customers, include the necessary HDCP encryption keys in parts we ship to customers. These encryption keys are provided to us from DCP. We have a specific process for tracking and handling these encryption keys. If DCP changes any of the tracking or handling requirements associated with HDCP encryption keys, we may be required to change our manufacturing and distribution processes, which could adversely affect our manufacturing and distribution costs associated with these products. If we cannot satisfy new requirements for the handling and tracking of encryption keys, we may have to cease shipping or manufacturing certain products.

Factors Related to Intellectual Property and Litigation

The intellectual property licensing component of our business strategy increases our business risk and fluctuation of our revenue and margins.

Our business strategy includes licensing our intellectual property to companies that incorporate it into their technologies that address multiple markets, including markets where we participate and compete. Our Licensing and services revenue may be impacted by the introduction of new technologies by customers in place of the technologies we license, changes in the law that may weaken our ability to prevent the use of our patented technology by others, the expiration of our patents, and changes of demand or selling prices for products using licensed patents. We cannot assure that our licensing customers will continue to license our technology on commercially favorable terms or at all, or that these customers will introduce and sell products incorporating our technology, accurately report royalties owed to us, pay agreed upon royalties, honor agreed upon market restrictions, or maintain the confidentiality of our proprietary information, or will not infringe upon or misappropriate our intellectual property. Our intellectual property licensing agreements are complex and may depend upon many factors that require significant judgments, including completion of milestones, allocation of values to delivered items and customer acceptance.

Our sale of patents and intermittent significant licensing transactions can cause material fluctuations in our revenue and gross margins.

We have generated revenue from the sale of certain patents from our portfolio in the past, generally for non-core technology that we are no longer actively developing. While we plan to continue to monetize our patent portfolio through sales of non-core patents, we may not be able to realize adequate interest or prices for those patents. Accordingly, we cannot provide assurance that we will continue to generate revenue from these sales. In addition, although we seek to be strategic in our decisions to sell patents, we might incur reputational harm if a purchaser of our patents sues one of our customers for infringement of the purchased patent, and we might later decide to enter a space that requires the use of one or more of the patents we sold. In addition, as we sell groups of patents, we no longer have the opportunity to further sell or to license those patents and receive a continuing royalty stream.

Our Licensing and services revenue fluctuates, sometimes significantly, from period to period because it is heavily dependent on a few key transactions being completed in a given period, the timing of which is difficult to predict and may not match our expectations. Licensing and services revenue may include revenue from the sales of patents, which sales may be difficult to complete and which may have complex terms for the payment which affects revenue recognition. Because of its high margin, the Licensing and services revenue portion of our overall revenue can have a disproportionate impact on gross profit and profitability. In addition, generating revenue from patent sales and intellectual property licenses is a lengthy and complex process that may last beyond the period in which our efforts begin, and the accounting rules governing the recognition of revenue from patent sales and intellectual property licensing

transactions are increasingly complex and require significant judgment. As a result, the amount of license revenue recognized in any period may differ significantly from our expectations.

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

From time to time we are subject to various legal proceedings and claims that arise out of the ordinary conduct of our business. Certain claims may not yet be resolved, including but not limited to any that are discussed under "Note 14 - Contingencies" contained in the Notes to Consolidated Financial Statements, and additional claims may arise in the future. Results of legal proceedings cannot be predicted with certainty. Regardless of merit or outcome, claims or litigation may be both time-consuming and disruptive to our operations and cause significant expense and diversion of management attention and we may enter into material settlements to avoid these risks. Should we fail to prevail in certain matters or enter into a material settlement, we may be faced with significant monetary damages or injunctive relief against us that could materially and adversely affect our financial condition and operating results and certain portions of our business.

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Our participation in the HDMI standard is evolving. We no longer act as agent for the HDMI standard, and our share of adopter fees and royalties for the HDMI standard is subject to variability.

We acted as agent of the HDMI consortium until December 31, 2016 and were responsible for promoting and administering the specification. We received all of the adopter fees paid by adopters of the HDMI specification in connection with our role as agent. In September 2016, the Founders of the HDMI consortium, of which we are a member, amended the Founders Agreement resulting in changes to our role as agent for the HDMI consortium and to the model for sharing adopter fee revenues. Under the terms of the agreement, our role as the agent was terminated effective January 1, 2017 and a new independent entity was appointed to act as the new HDMI licensing agent with responsibility for licensing and the distribution of royalties among Founders. As a result of the amended model for sharing adopter fee revenue, we are entitled to a share of the adopter fees paid by parties adopting the HDMI standard.

We share HDMI royalties with the other HDMI Founders based on an allocation formula, which is reviewed generally every three years. In the fourth quarter of fiscal 2019, the HDMI Founders adopted a new agreement covering the five-year period beginning January 1, 2018. The amount of our portion of the royalty allocation is dependent on the royalties generated by adopter sales of royalty-bearing HDMI technology, which are subject to variability in economic trends particularly in the market for consumer electronics.

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

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

Factors Related to Overall General Business & Operations

Our business depends on the proper functioning of internal processes and information technology systems. A failure of these processes and systems, data breaches, cyber-attacks, or cyber-fraud may cause business disruptions, compromise our intellectual property or other sensitive information, or result in losses.

We rely on various information technology ("IT") networks and systems to manage our operations, including financial reporting, and we regularly make changes to improve them as necessary by periodically implementing new, or upgrading or enhancing existing, operational and IT systems, procedures, and controls. These systems are supported by subcontractors, and they may also be subject to power and telecommunication outages or other general system failures. The legal, regulatory and contractual environment surrounding information security and data privacy is complex and evolving. We continue to commit significant resources to implementing new systems to standardize our processes worldwide and adopt best-in-class capabilities. We are focused on realizing the full analytical functionality of these conversions, which can be extremely complex, in part, because of the wide range of legacy systems and processes that must be integrated.

In the normal course of business, we may implement new or updated IT systems and, as a result, we may experience delays or disruptions in the integration of these systems, or the related procedures or controls. The policies and security measures established with our IT systems may be vulnerable to data breaches, cyber-attacks or fraud. We may also encounter errors in data, an inability to accurately process or record transactions, and security or technical reliability issues. All of these could harm our ability to conduct core operating functions such as processing invoices, shipping and receiving, recording and reporting financial and management information on a timely and accurate basis, and could impact our internal control compliance efforts. If the technical solution or end user training are inadequate, it could limit our ability to manufacture and ship products as planned. We have various systems that remain that may be nearing the end of their useful life or vendor support, which will ultimately need to be replaced.

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We maintain sensitive data on our networks and the networks of our business partners and third-party providers, including proprietary and confidential information relating to our intellectual property, personnel, and business, and that of our customers and third-party providers. Companies have been increasingly subject to a wide variety of security incidents, cyber-attacks, hacking, phishing, and other attempts to gain unauthorized access or engage in fraudulent behavior. Cyber-attacks have become more prevalent, sophisticated and much harder to detect and defend against and it is often difficult to anticipate or detect such incidents and to assess the damage caused by them. Our policies and security measures cannot guarantee security, and our information technology infrastructure, including our networks and systems, may be vulnerable to data breaches, cyber-attacks or fraud. In the past, third parties have attempted to penetrate and/or infect our network and systems with malicious software and phishing attacks in an effort to gain access to our network and systems. In addition, we are subject to the risk of third parties falsifying invoices and similar fraud, frequently by obtaining unauthorized access to our vendors' and business partners' networks.

In some circumstances, we may partner with third-party providers and provide them with certain sensitive data. If these third parties fail to adopt or adhere to adequate data security practices, or in the event of a breach of their networks, this sensitive data may be improperly accessed, used or disclosed. These data breaches and any unauthorized access or disclosure of sensitive data could compromise our intellectual property, expose sensitive business information and subject us to third party claims.

The increase in cyber-attacks has resulted in an increased focus on cybersecurity by certain government agencies. Cyber-attacks or any investigation or enforcement action related to cybersecurity could cause us to incur significant remediation costs, result in product development delays, disrupt key business operations, and divert attention of management and key information technology resources. In addition, we may incur loss as a result of cyber-fraud, such as those experienced by other companies by making unauthorized payments irrespective of robust internal controls.

Failure of our IT systems or difficulties or delays in maintaining, managing, and integrating them could adversely affect the Company's controls and procedures and could impact the Company's ability to perform necessary operations, which could materially adversely affect our business. Furthermore, our reputation, brand, and business could be significantly harmed, and we could be subject to third-party claims or governmental penalties in the event of a security breach.

We regularly test for goodwill and other impairments as required under U.S. GAAP, and we may incur future impairments.

We are required under U.S. GAAP to test goodwill for possible impairment on an annual basis and to test goodwill and long-lived assets, including amortizable intangible assets, for impairment at any other time that circumstances arise indicating the carrying value may not be recoverable. For purposes of testing goodwill for impairment, the Company currently operates as one reporting unit: the core Lattice ("Core") business, which includes intellectual property and semiconductor devices. We had no impairment charges in either fiscal 2020 or 2019. Impairment charges related to amortizable intangible assets from the Silicon Image acquisition totaled approximately \$12.5 million in fiscal 2018. There is no certainty that future impairment tests will indicate that goodwill or amortizable intangible assets will be deemed recoverable. As we continue to review our business operations and test for impairment or in connection with possible sales of assets, we may have impairment charges in the future, which may be material.

Changes to financial accounting standards may affect our results of operations and could cause us to change our business practices.

We prepare our consolidated financial statements to conform to generally accepted accounting principles in the United States. These accounting principles are subject to interpretation by the American Institute of Certified Public Accountants, the SEC and various bodies formed to interpret and create accounting rules and regulations. Changes in these rules, such as the adoption of ASC 606 - Revenue from Contracts with Customers in fiscal 2018 or ASC 842 - Leases in fiscal 2019, has had a material effect on our financial results and affected portions of our business differently. Future changes to these rules, or in the guidance relating to interpretation and adoption of the rules, could have a significant effect on our financial results and could affect portions of our business differently.

Changes in effective tax rates, tax laws and our global organizational structure and operations could expose us to unanticipated tax consequences.

We are subject to taxation in the United States and other countries. We have a global tax structure that aligns our corporate structure with our global business operations, and we currently operate legal entities in multiple countries. In some countries, we maintain multiple entities for tax or other purposes. We may choose to consolidate or integrate certain of these entities, and these integration activities, changes in tax laws, rates, regulations, future jurisdictional profitability of the Company, and related regulatory interpretations in the countries in which we operate may impact the taxes we pay or tax provision we record, which could adversely affect our results of operations. In addition, future effective tax rates could be affected by changes in the composition of our earnings in countries with differing tax rates, and by changes in the valuation of deferred tax assets and liabilities. We make no assurance as to what taxes we pay or the ability to estimate our future effective tax rate because of, among other things, uncertainty regarding the tax policies of the jurisdictions where we operate, or the potential impact of releasing our valuation allowance.

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Weakness in our internal control over financial reporting could adversely affect our business and financial results.

We are required to maintain internal controls over financial reporting. We review these controls regularly and deficiencies may be identified from time to time. During the quarter ended December 28, 2019, we evaluated and remediated certain deficiencies in our information technology controls over system access and no material weakness existed at the end of the period. We previously disclosed a material weakness in 2017 related to our risk assessment involving significant unusual transactions that was remediated in 2018. In the future, we may identify material weaknesses in our internal controls over financial reporting. Any failure to maintain an effective system of internal controls over financial reporting could limit our ability to report our financial results accurately and timely, which could adversely affect our business, financial results, and stock price.

We compete with others to attract and retain key personnel, and any loss of, or inability to attract, such personnel could adversely affect our ability to compete effectively.

We depend on the efforts and abilities of certain key members of management and other technical personnel. Our future success depends, in part, upon our ability to retain such personnel and attract and retain other highly qualified personnel, particularly product engineers who can respond to market demands and required product innovation. Competition for such personnel is intense and we may not be successful in hiring or retaining new or existing qualified personnel. If we lose existing qualified personnel or are unable to hire new qualified personnel, as needed, we could have difficulty competing in our highly competitive and innovative environment.

Our outstanding indebtedness could reduce our strategic flexibility and liquidity and may have other adverse effects on our results of operations.

As of January 2, 2021, we had approximately \$171.9 million outstanding under a credit agreement, dated May 17, 2019 (the "Current Credit Agreement"). Our obligations under the Current Credit Agreement are guaranteed by our U.S. subsidiaries, and include a requirement to pay quarterly installments of approximately \$4.4 million with the remaining balance due upon maturity in May 2024. Our ability to meet our debt service obligations depends upon our operating and financial performance, which is subject to general economic and competitive conditions and to financial, business and other factors affecting our operations, many of which are beyond our control. If we are unable to service our debt, we may need to sell material assets, restructure or refinance our debt, or seek additional equity capital. Prevailing economic conditions and global credit markets could adversely impact our ability to sell material assets, restructure or refinance our debt on terms acceptable to us, or at all, or we may not be able to restructure or refinance our debt without incurring significant additional fees and expenses.

The Current Credit Agreement contains customary affirmative and negative covenants, including covenants limiting the ability of the Company to, among other things, incur debt, grant liens, undergo certain fundamental changes, make investments, make certain restricted payments, dispose of assets, enter into transactions with affiliates, and enter into burdensome agreements, in each case, subject to limitations and exceptions set forth in the Current Credit Agreement. We are also required to maintain compliance with a total leverage ratio and an interest coverage ratio, in each case, determined in accordance with the terms of the Current Credit Agreement.

The amount and terms of our indebtedness, as well as our credit rating, could have important consequences, including the following:

- we may be more vulnerable to economic downturns, less able to withstand competitive pressures, and less flexible in responding to changing business and economic conditions;
- our cash flow from operations may be allocated to the payment of outstanding indebtedness, and not to research and development, operations or business growth;

- we might not generate sufficient cash flow from operations or other sources to enable us to meet our payment obligations under the facility and to fund other liquidity needs;
- our ability to make distributions to our stockholders in a sale or liquidation may be limited until any balance on the facility is repaid in full; and
- our ability to incur additional debt, including for working capital, acquisitions, or other needs, is more limited.

If we breach a loan covenant, the lenders could accelerate the repayment of the facility. We might not have sufficient assets to repay our indebtedness upon acceleration. If we are unable to repay or refinance the indebtedness upon acceleration or at maturity, the lenders could initiate a bankruptcy proceeding against us or collection proceedings with respect to our assets and subsidiaries securing the facility, which could materially decrease the value of our common stock.

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

We carry insurance customary for companies in our industry, including, but not limited to, liability, property, and casualty; workers' compensation; and business interruption insurance. We also insure our employees for basic medical expenses. In addition, we have insurance contracts that provide director and officer liability coverage for our directors and officers. Other than the specific areas mentioned above, we are self-insured with respect to most other risks and exposures, and the insurance we carry in many cases is subject to a significant policy deductible or other limitation before coverage applies. Based on management's assessment and judgment, we have determined that it is more cost effective to self-insure against certain risks than to incur the insurance premium costs. The risks and exposures for which we self-insure include, but are not limited to, certain natural disasters, certain product defects, certain matters for which we indemnify third parties, political risk, certain theft, patent infringement, and 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.

Factors Related to Our Markets and Product Development

The semiconductor industry routinely experiences cyclical market patterns and our products are used across different end markets. A significant downturn in the industry or in any of these end markets could cause a meaningful reduction in demand for our products and adversely affect our operating results.

Our revenue and gross margin can fluctuate significantly due to downturns in the highly cyclical semiconductor industry. These downturns can be severe and prolonged and can result in price erosion and weak demand for our products. Weak demand for our products resulting from general economic conditions affecting the end markets we serve or the semiconductor industry specifically and reduced spending by our customers can result, and in the past has resulted, in diminished product demand, high inventory levels, erosion of average prices, excess and obsolete inventories and corresponding inventory write-downs. Our expense levels are based, in part, on our expectations of future sales. Many of our expenses, particularly those relating to facilities, capital equipment, and other overhead, are relatively fixed. We might be unable to reduce spending quickly enough to compensate for reductions in sales. Accordingly, shortfalls in sales could adversely affect our operating results. Furthermore, any significant upturn in the semiconductor industry could result in increased competition for access to raw materials and third-party service providers.

Additionally, our products are used across different end markets, and demand for our products is difficult to predict and may vary within or among our Industrial and Automotive, Communications and Computing, and Consumer end markets. Our target markets may not grow or develop as we currently expect, and demand may increase or change in one or more of our end markets, and changes in demand may reduce our revenue, lower our gross margin and effect our operating results. We have experienced concentrations of revenue at certain customers and within certain end markets, and we regularly compete for design opportunities at these customers and within these markets. Any deterioration in these end markets, reductions in the magnitude of revenue streams, our inability to meet design and pricing requirements, or volatility in demand for our products could lead to a reduction in our revenue and adversely affect our operating results. Our success in our end markets depends on many factors, including the strength or financial performance of the customers in our end markets, our ability to timely meet rapidly changing product requirements, market needs, and our ability to maintain design wins across different markets and customers to dampen the effects of market volatility. The dynamics of the markets in which we operate make prediction of and timely reaction to such events difficult.

Due to these and other factors, our past results may not be reliable predictors of our future results. If we are unable to accomplish any of the foregoing, or to offset the volatility of cyclical changes in the semiconductor industry or our end markets through diversification into other markets, could materially and adversely affect our business, financial condition, and operating results.

Our success and future revenue depend on our ability to develop and introduce new products that achieve customer and market acceptance.

We compete in a dynamic environment characterized by rapid technology and product evolution, generally followed by a relatively longer process of ramping up to volume production on advanced technologies. Our end customers' continued use of our products is frequently reevaluated, as certain of our customers' product life cycles are relatively short and they continually develop new products. The selection process for our products to be included in our customers' new products is highly competitive. There are no guarantees that our products will be included in the next generation of products introduced by these customers. Additionally, our markets are also characterized by evolving industry standards and increased demand for higher levels of integration and smaller process geometry. Our competitive position and success depend on our ability to innovate, develop, and introduce new products that compete effectively on the basis of price, density, functionality, power consumption, form factor, and performance, and our addressing the evolving needs of the markets we serve, among other things. With increased introduction of new products, we expect revenue related to mature products to decline over time in a normal product life cycle. As a result, we may be increasingly dependent on revenue derived from our newer products.

Our future growth and the success of new product introductions depend upon numerous factors, including:

- timely completion and introduction of new product designs;
- ability to generate new design opportunities and design wins, including those which result in sales of significant volume;
- achievement of necessary volume of production to achieve acceptable cost;
- availability of specialized field application engineering resources supporting demand creation and customer adoption of new products;
- ability to utilize advanced manufacturing process technologies;
- achieving acceptable yields and obtaining adequate production capacity from our wafer foundries and assembly and test subcontractors;
- ability to obtain advanced packaging;
- availability of supporting software design tools;
- utilization of predefined IP logic;
- customer acceptance of advanced features in our new products; and
- market acceptance of our customers' products.

The failure of any of these factors, among others, could adversely affect our product innovation, development and introduction efforts and our financial condition and results of operations.

We compete against companies that have significantly greater resources than us and numerous other product solutions.

The semiconductor industry is highly competitive and many of our direct and indirect competitors have substantially greater financial, technological, manufacturing, marketing, and sales resources. Consolidation in our industry may increasingly mean that our competitors have greater consolidated resources, or other synergies, that could put us at a competitive disadvantage. We currently compete directly with companies that have licensed our technology or have developed similar products, as well as numerous semiconductor companies that offer products based on alternative solutions, such as applications processor, application specific standard product, microcontroller, analog, and digital signal processing technologies. Competition from these semiconductor companies may intensify as we offer more products in any of our end markets. These competitors include established, multinational semiconductor companies, as well as emerging companies.

We depend on independent contractors and third parties to provide key services in our product development and operations, and any disruption of their services, or an increase in cost of these services, could negatively impact our financial condition and results of operations.

We depend on subcontractors to provide cost effective and efficient services in our product development and supply chain functions, including test and assembly services, software and hardware development, support of intellectual property cores, inventory management, order fulfillment and direct sales logistics.

Our operations and operating results may be adversely affected if we experience problems with our subcontractors that impact the delivery of product to our customers. These problems may include: delays in software or hardware development timelines, prolonged inability to obtain wafers or packaging materials with competitive performance and cost attributes; inability to achieve adequate yields or timely delivery; inability to meet customer timelines or demands, disruption or defects in assembly, test, or shipping services; or delays in stabilizing manufacturing processes or ramping up volume for new products. If our third-party supply chain providers were to reduce or discontinue services for us or their 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, weak economic conditions, or any other reason, our financial condition and results of operations could be adversely affected.

Factors Related to Our Sales and Revenue

Our revenues depend on our relationships with our distributors and on a concentrated group of end customers. An adverse change in the relationships with, or performance of, our distributors, or any reduction in the use of our products by our end customers, could harm our sales and significantly decrease our revenue.

We depend on a concentrated group of distributors to sell our products to end customers, complete order fulfillment, maintain sufficient inventory of our products and provide services to our end customers. In fiscal 2020, revenue attributable to sales to distributors accounted for 83% of our total revenue, with two distributors accounting for 60% of total revenue. We have significant outstanding receivables with our top distributors, and expect our distributors to generate a significant portion of our revenue in the future. Any adverse change to our relationships or agreements with our distributors or a failure by one or more of our distributors to perform its obligations to us could have a material impact on our business, including a reduction in our access to certain end customers or our ability to sell our products.

If our relationships with any material customers were to diminish, if these customers were to develop their own solutions or adopt alternative solutions or competitors' solutions, if any one or more of our concentrated groups of customers were to experience significantly adverse financial conditions, or if as a result of trade disputes or sanctions these customers were restricted from purchasing our products, our results could be adversely affected.

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In addition, the inability of customers to obtain credit, the insolvency of one or more customers, or tariffs applicable to our customers' products, could impact our sales. Any of these effects could impact our ability to effectively manage inventory levels and collect receivables, require additional restructuring actions, and decrease our revenue and profitability.

The nature of our business and length of our sales cycle makes our revenue, gross margin and net income subject to fluctuation and difficult to accurately predict.

A number of factors, including how products are manufactured to support end markets, yield, wafer pricing, cost of packaging raw materials, product mix, market acceptance of our new products, competitive pricing dynamics, product quality, geographic and/or end market mix, and pricing strategies, can cause our revenue, gross margins and net income to fluctuate significantly either positively or negatively from period to period.

We have limited visibility into the demand for our products, particularly new products, because demand for our products depends upon our products being designed into our end customers' products and those products achieving market acceptance. During our sales cycle, our customers typically test and evaluate our products prior to deciding to include our products into the design of their own products, and then require additional time to begin volume production of their products. This lengthy sales cycle may cause us to incur significant expenses, experience significant production delays and to incur additional inventory costs before we receive a customer order that may be delayed or never get placed. A key strategic customer may demand certain design or production resources to meet their requirements or work on a specific solution, which could cause delays in our normal development schedule and result in significant investment of our resources or missed opportunities with other potential customers. We may incur these expenses without generating revenue from our products to offset the expenses.

While our sales cycles are typically long, our average product life cycles tend to be short as a result of the rapidly changing technology environment in which we operate. Our inventory levels may be higher than historical norms, from time to time, due to inventory build decisions aimed at meeting expected demand from a single large customer, reducing direct material cost or enabling responsiveness to expected demand. In the event the expected demand does not materialize, or if our short sales cycle does not generate sufficient revenue, we may be subject to incremental excess and obsolescence costs.

These factors make it difficult for us to accurately forecast future sales and project quarterly revenues. The difficulty in forecasting future sales weakens our ability to project our inventory requirements, which could result, and in the past has resulted, in inventory write-downs or failure to meet customer product demands in a timely manner. While we may give guidance, the difficulty in forecasting revenues as well as the relative customer and product mix of those revenues limits our ability to provide accurate forward-looking revenue and gross margin guidance.

Accounting requirements related to sales through our distribution channel could result in our reporting revenue in excess of demand.

Revenue recognition standards require recognition of revenue based on estimates and may require us to record revenue from distributors that is in excess of actual end customer demand. Since we have limited ability to forecast inventory levels of our end customers, we depend on the timeliness and accuracy of resale reports from our distributors. Late or inaccurate resale reports could mask significant build-up of inventories in our distribution channel, have a detrimental effect on our ability to properly recognize revenue, and impact our ability to forecast future sales. An inventory build-up in our distribution channel could result in a slowdown in orders, requests for returns from customers, or requests to move out planned shipments. If our distributors do not ultimately sell

the inventory and our estimates change, we could be required to materially correct our recognized revenue in a future period, depending on actual results. Any failure to manage these challenges could disrupt or reduce sales of our products and unfavorably impact our financial results.

Factors Related to Strategic Transactions

Acquisitions, divestitures, strategic investments and strategic partnerships could disrupt our business and adversely affect our financial condition and operating results.

We may pursue growth opportunities by acquiring complementary businesses, solutions or technologies through strategic transactions, investments or partnerships. The identification of suitable acquisition, strategic investment or strategic partnership candidates can be costly and time consuming and can distract our management team from our current operations. If such strategic transactions require us to seek additional debt or equity financing, we may not be able to obtain such financing on terms favorable to us or at all, and such transaction may adversely affect our liquidity and capital structure. We may also choose to divest certain non-core assets, which divestitures could lead to charges against earnings and may expose us to additional liabilities and risks. Any strategic transaction might not strengthen our competitive position, may increase some of our risks, and may be viewed negatively by our customers, partners or investors. Even if we successfully complete a strategic transaction, we may not be able to effectively integrate the acquired business, technology, systems, control environment, solutions, personnel or operations into our business or global tax structure. We may experience unexpected changes in how we are required to account for strategic transactions pursuant to U.S. GAAP and may not achieve the anticipated benefits of any strategic transaction. We may incur unexpected costs, claims or liabilities that we incur during the strategic transaction or that we assume from the acquired company, or we may discover adverse conditions post acquisition for which we have limited or no recourse.

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Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

We lease a 47,800 square foot of space in Hillsboro, Oregon as our corporate headquarters and a research and development facility through November 2022. In San Jose, California, we have 98,874 square feet under lease through September 2026, of which we use 49,579 square feet as a research and development facility, while we vacated 49,295 square feet during the fourth quarter of 2018 and intend to sublease the vacated space. During 2019, we vacated a 23,680 square foot office space in Portland, Oregon, which we have subleased through the end of the lease in March 2025.

In Muntinlupa City, Philippines, we lease a total of 48,565 square feet through May 2025 and 1,938 square feet through June 2025 for research and development and operations facilities.

In Shanghai, China, we lease 68,027 square feet through May 2021 for research and development operations.

We also lease office facilities in multiple other 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.

Item 3. Legal Proceedings

The information contained under the heading "Legal Matters" in [Note 14 - Contingencies](#) to our Consolidated Financial Statements in Part II, Item 8 is incorporated by reference into this Part I, Item 3. Also, see "Litigation and unfavorable results of legal proceedings could adversely affect our financial condition and operating results" in "Risk Factors" in Item 1A of Part I of this Annual Report on Form 10-K.

Item 4. Mine Safety Disclosures

Not applicable.

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PART II

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

Market Information

Our common stock is traded on the NASDAQ Global Select Market under the symbol "LSCC".

Holders

As of February 19, 2021, we had approximately 203 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 our business. We have never paid cash dividends.

Recent Sales of Unregistered Securities

None.

Issuer Purchases of Equity Securities

On February 24, 2020, we announced that our Board of Directors had approved a stock repurchase program with a duration of twelve months. Under this program during the fourth quarter of fiscal 2020, we made open market purchases funded from available working capital totaling approximately \$15.0 million. All repurchased shares were retired by the end of the 2020 fiscal year.

The following table contains information regarding our purchases of our common stock during the fourth quarter of fiscal 2020:

| Period | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (a) | Approximate Dollar Value of Shares That May Yet Be Purchased Under the Plans or Programs as of Report Filing Date (b) |
|--|----------------------------------|------------------------------|--|---|
| November 1, 2020 through November 30, 2020 | 384,538 | \$ 38.98 | 384,538 | \$ — |
| Total | 384,538 | \$ 38.98 | 384,538 | \$ — |

(a) All open-market purchases during the quarter were made under the authorization from our board of directors to purchase up to \$40.0 million of LSCC common stock announced February 24, 2020.

(b) The twelve-month 2020 program expired during the first quarter of fiscal 2021, during which no additional shares were repurchased.

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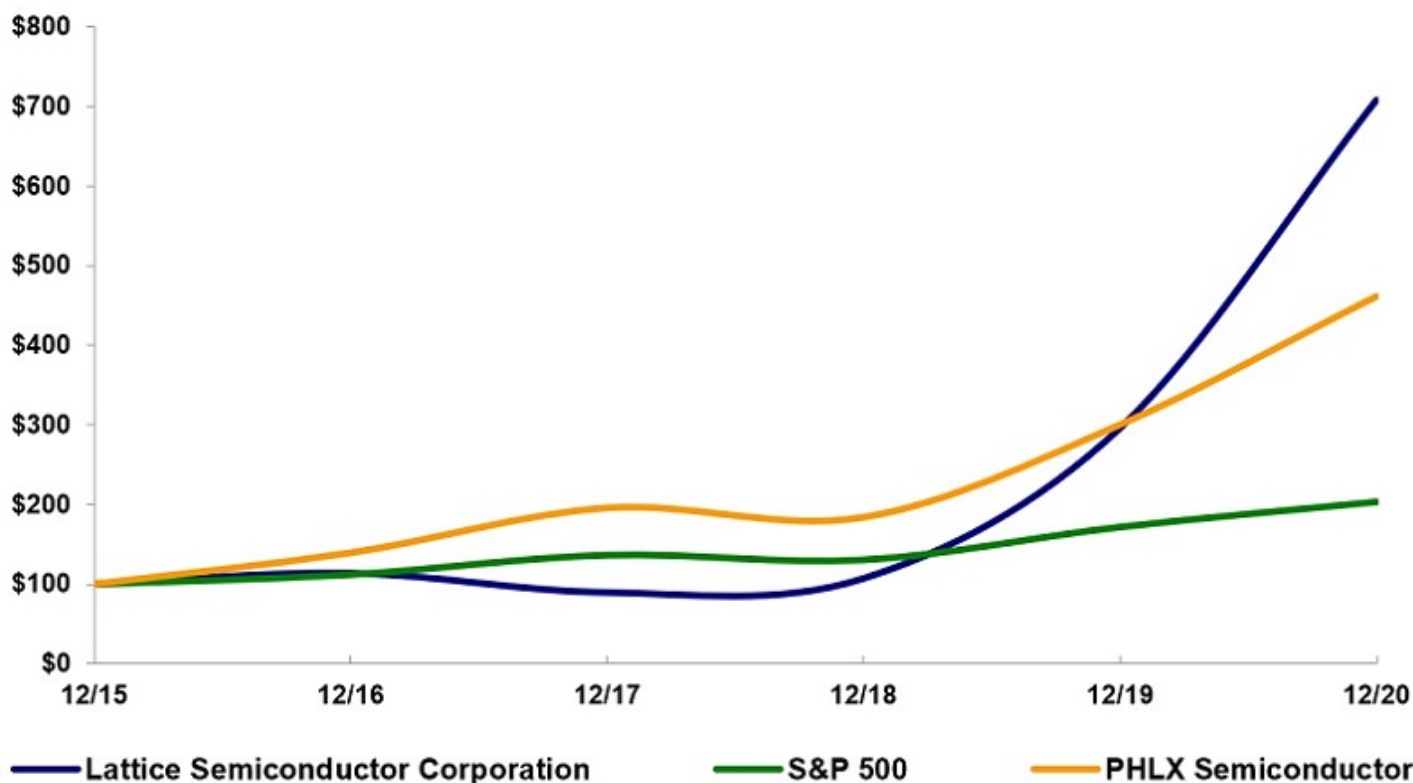
Comparison of Total Cumulative Stockholder Return

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 ("PHLX") from December 2015 through December 2020. Cumulative stockholder return assumes \$100 invested at the beginning of the period in our common stock, the S&P and PHLX. Historical stock price performance is not necessarily indicative of future stock price performance.

Lattice Cumulative Stockholder Return

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN*

Among Lattice Semiconductor Corporation, the S&P 500 Index
and the PHLX Semiconductor Index



*\$100 invested on 12/31/15 in stock or index, including reinvestment of dividends.
Fiscal year ending December 31.

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| | 12/15 | 12/16 | 12/17 | 12/18 | 12/19 | 12/20 |
|-----------------------------------|--------|--------|--------|--------|--------|--------|
| Lattice Semiconductor Corporation | 100.00 | 113.76 | 89.34 | 106.96 | 295.83 | 708.19 |
| S&P 500 | 100.00 | 111.96 | 136.40 | 130.42 | 171.49 | 203.04 |
| PHLX Semiconductor | 100.00 | 139.32 | 195.80 | 183.97 | 300.35 | 461.53 |

The stock price performance included in this graph is not necessarily indicative of future stock price performance.

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Item 6. Selected Financial Data

| STATEMENT OF OPERATIONS: (In thousands, except per share data) | Year Ended * | | | | |
|---|-----------------------|----------------------|----------------------|----------------------|----------------------|
| | January 2, 2021 ** | December 28, 2019 | December 29, 2018 | December 30, 2017 | December 31, 2016 |
| Revenue | \$ 408,120 | \$ 404,093 | \$ 398,799 | \$ 385,961 | \$ 427,054 |
| Cost of revenue | 162,814 | 165,671 | 179,360 | 169,382 | 180,620 |
| Gross margin | 245,306 | 238,422 | 219,439 | 216,579 | 246,434 |
| Operating expenses: | | | | | |
| Research and development | 89,223 | 78,617 | 82,449 | 103,357 | 117,518 |
| Selling, general, and administrative | 95,331 | 82,542 | 91,054 | 90,718 | 98,602 |
| Amortization of acquired intangible assets | 4,449 | 13,558 | 17,690 | 31,340 | 33,575 |
| Restructuring charges | 3,937 | 4,664 | 17,349 | 7,196 | 9,267 |
| Impairment of acquired intangible assets and goodwill | — | — | 12,486 | 32,431 | 7,866 |
| Acquisition related charges | — | — | 1,531 | 3,781 | 6,305 |
| Gain on sale of building | — | — | — | (4,624) | — |
| Total operating expenses | 192,940 | 179,381 | 222,559 | 264,199 | 273,133 |
| Income (loss) from operations | 52,366 | 59,041 | (3,120) | (47,620) | (26,699) |
| Interest expense | (3,702) | (11,731) | (20,600) | (18,807) | (20,327) |
| Other (expense) income, net | (208) | (2,245) | (249) | (3,286) | 2,844 |
| Income (loss) before income taxes | 48,456 | 45,065 | (23,969) | (69,713) | (44,182) |
| Income tax expense | 1,064 | 1,572 | 2,353 | 849 | 9,917 |
| Net income (loss) | \$ 47,392 | \$ 43,493 | \$ (26,322) | \$ (70,562) | \$ (54,099) |

| | | | | | | | |
|------------------------------|----|------|----|------|-----------|-----------|-----------|
| Net income (loss) per share: | | | | | | | |
| Basic | \$ | 0.35 | \$ | 0.33 | \$ (0.21) | \$ (0.58) | \$ (0.45) |
| Diluted | \$ | 0.34 | \$ | 0.32 | \$ (0.21) | \$ (0.58) | \$ (0.45) |

Shares used in per share calculations:

| | | | | | | | | | | |
|---------|--|---------|--|---------|--|---------|--|---------|--|---------|
| Basic | | 135,220 | | 132,471 | | 126,564 | | 122,677 | | 119,994 |
| Diluted | | 141,276 | | 137,274 | | 126,564 | | 122,677 | | 119,994 |

| | | | | | | |
|--|----|-------------------|---------------------|---------------------|---------------------|---------------------|
| BALANCE SHEET: | | January 2, | December 28, | December 29, | December 30, | December 31, |
| <i>(In thousands)</i> | | 2021 | 2019 | 2018 | 2017 | 2016 |
| Cash, cash equivalents, and short-term marketable securities | \$ | 182,332 | \$ 118,081 | \$ 128,675 | \$ 111,797 | \$ 116,860 |
| Total assets | \$ | 680,067 | \$ 612,016 | \$ 623,687 | \$ 635,961 | \$ 766,883 |
| Long term liabilities | \$ | 215,909 | \$ 184,538 | \$ 295,812 | \$ 334,621 | \$ 338,903 |
| Total liabilities | \$ | 295,640 | \$ 284,357 | \$ 365,230 | \$ 418,268 | \$ 496,453 |
| Total stockholders' equity | \$ | 384,427 | \$ 327,659 | \$ 258,457 | \$ 217,693 | \$ 270,430 |

* Results for periods prior to 2018 are presented in accordance with ASC 605, which was in effect during those fiscal years.

** The year ended January 2, 2021 was a 53-week year as compared to the other years presented, which were based on our standard 52-week year

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

Overview

Lattice Semiconductor Corporation and its subsidiaries ("Lattice," the "Company," "we," "us," or "our") develop technologies that we monetize through differentiated programmable logic semiconductor products, system solutions, design services, and licenses. Lattice is the low power programmable leader. We solve customer problems across the network, from the Edge to the Cloud, in the growing communications, computing, industrial, automotive, and consumer markets. Our technology, long-standing relationships, and commitment to world-class support lets our customers quickly and easily unleash their innovation to create a smart, secure, and connected world.

Lattice has focused its strategy on delivering programmable logic products and related solutions based on low power, small size, and ease of use. We also serve our customers with IP licensing and various other services. Our product development activities include new proprietary products, advanced packaging, existing product enhancements, software development tools, soft IP, and system solutions for high-growth applications such as Edge Artificial Intelligence, 5G infrastructure, platform security, and factory automation.

This discussion and analysis of financial condition and results of operations should be read in conjunction with our consolidated financial statements and accompanying notes included in Item 8. "Financial Statements and Supplementary Data" of this report. Discussions of results for prior periods (fiscal 2019 compared to fiscal 2018) are incorporated by reference from our [Annual Report on Form 10-K for the year ended December 28, 2019](#).

Impact of the COVID-19 pandemic on our Business

The COVID-19 pandemic has caused, and is expected to continue to cause, the global slowdown of economic activity (including the decrease in demand for goods and services), and significant volatility in and disruption to financial markets. Because the severity, magnitude and duration of the COVID-19 pandemic and its economic consequences are uncertain, rapidly changing, and difficult to predict, the pandemic's impact on our operations and financial performance, as well as its impact on our ability to successfully execute our business strategy and initiatives, remains uncertain. We continue to take actions to safeguard the health and well-being of our employees and our business. We implemented social distancing policies at our locations around the world including working from home and eliminating virtually all travel. Furthermore, we continue to manage our cash position and liquidity needs in light of the rapidly changing environment, and we have additional resources available under our Current Credit Agreement, if needed. As a result of the accelerated debt payments we made during the second quarter of fiscal 2020 to reduce our future interest rate expense, we do not have any required debt payments until June 30, 2021.

As COVID-19 has spread globally and been declared a pandemic, the full extent of this outbreak, the related governmental, business and travel restrictions in order to contain this virus are continuing to evolve globally. We anticipate that these actions and the global health crisis caused by the COVID-19 pandemic will negatively impact business activity across the globe. We expect our demand to be impacted in Q1 and potentially beyond Q1 given the global reach and economic impact of the virus. For example, governmental actions or policies or other initiatives to contain the virus, could lead to reductions in our end customers' demand under which we would expect to lose revenue. We have previously seen and could again see delays or disruptions in our supply chain due to governmental restrictions. If our suppliers experience similar impacts, we may have difficulty sourcing materials necessary to fulfill customer production requirements and transporting completed products to our end customers.

We will continue to actively monitor the situation and may take further actions altering our business operations that we determine are in the best interests of our employees, customers, partners, suppliers, and stakeholders, or as required by federal, state, or local authorities. It is not clear what the potential effects of any such alterations or modifications may have on our business, including the effects on our customers, employees, and prospects, or on our financial results. The full extent of the impact of the COVID-19 pandemic on our business, results of operations and financial position is currently uncertain and will depend on many factors that are not within our control, including, but not limited to: the duration and scope of the pandemic; governmental, business and individuals' actions that have been and continue to be taken in response to the pandemic; general economic uncertainty in key global markets and financial market volatility; global economic conditions and levels of economic growth; and the pace of recovery when the COVID-19 pandemic subsides. See the section entitled "Risk Factors" in Item 1A of Part I of this report for further information about related risks and uncertainties.

Critical Accounting Policies and Use of Estimates

Critical accounting policies are those that are both most important to the portrayal of a company's financial condition and results, and that 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.

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The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and judgments affecting the amounts reported in our consolidated condensed financial statements and the accompanying notes. We base our estimates and judgments on historical experience, knowledge of current conditions, and our beliefs of what could occur in the future considering available information. While we believe that our estimates, assumptions, and judgments are reasonable, they are based on information available when made, and because of the uncertainty inherent in these matters, actual results may differ from these estimates under different assumptions or conditions. We evaluate our estimates and judgments on an ongoing basis.

We believe the following accounting policies and the related estimates are critical in the portrayal of our financial condition and results of operations, and require management's most difficult, subjective, or complex judgments. See "[Note 1 - Nature of Operations and Significant Accounting Policies](#)" under Part II, Item 8 of this report for further information on the significant accounting policies and methods used in the preparation of the consolidated financial statements.

Revenue from Contracts with Customers

We recognize revenue upon satisfaction of performance obligations when control of promised goods or services has been transferred to our customers. We measure revenue based on the amount of consideration we expect to be entitled to in exchange for products or services. For revenue recognized on both sales to distributors and related to HDMI royalties, the amount of consideration we expect to be entitled to receive is based on estimates that require assumptions and judgments relating to trends in recent and historical activity. See "[Note 1 - Basis of Presentation and Significant Accounting Policies](#)" under Part II, Item 8 of this report for further information on our recognition of revenue. Sales to most distributors are made under terms allowing certain price adjustments upon sale to their end customers and limited rights of return of our products held in their inventory. The revenue recognized based on estimated price adjustments and stock rotation reserves may be materially different from the actual consideration received if the actual distributor price adjustments and stock rotation returns differ significantly from the historical trends used in the estimates.

Inventories and Cost of Revenue

Inventories are stated at the lower of actual cost (determined using the first-in, first-out method) or net realizable value. We review and set standard costs quarterly to approximate current actual manufacturing costs. Our manufacturing overhead standards for product costs are calculated assuming full absorption of actual spending over actual costs. The valuation of inventory requires us to estimate excess or obsolete inventory. Material assumptions we use to estimate necessary inventory carrying value adjustments can be unique to each product and are based on specific facts and circumstances. In determining provisions for excess or obsolete products, we consider assumptions such as changes in business and economic conditions, projected customer demand for our products, and changes in technology or customer requirements. The creation of such provisions results in a write-down of inventory to net realizable value and a charge to Cost of revenue. If in any period we anticipate a change in assumptions such as future market or economic conditions to be less favorable than our previous estimates, additional inventory write-downs may be required and would be reflected in Cost of revenue, resulting in a negative impact to our gross margin in that period. If in any period we are able to sell inventories that had been written down to a level below the ultimate realized selling price in a previous period, related revenue would be recorded with a lower or no offsetting charge to Cost of revenue resulting in a net benefit to our gross margin in that period.

Accounting for Income Taxes

Our provision for income tax is comprised of our current tax liability and changes in deferred tax assets and liabilities. Deferred tax assets and liabilities are recognized for the expected tax consequences of temporary differences between the tax bases of assets and liabilities and their reported amounts in the financial statements using enacted tax rates and laws that will be in effect when the difference is expected to reverse. Valuation allowances are provided to reduce deferred tax assets to an amount that in management's judgment is more-likely-than-not to be recoverable against future taxable income. The determination of a valuation allowance and when it should be released requires complex judgment. In assessing the ability to realize deferred tax assets, we regularly evaluate both positive and negative evidence that may exist and consider whether it is more-likely-than-not that some portion or all of the deferred tax assets will be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible.

As part of our regular financial review process, we also assess the likelihood that our tax reporting positions will ultimately be sustained. To the extent it is determined it is more likely than not (a likelihood of more than 50 percent) that some portion or all of a tax reporting position will ultimately not be recognized and sustained, a provision for unrecognized tax benefit is provided by either reducing the applicable deferred tax asset or accruing an income tax liability. Our judgment regarding the sustainability of our tax reporting positions may change in the future due to changes in U.S. or international tax laws and other factors. These changes, if any, may require material adjustments to the related deferred tax assets or accrued income tax liabilities and an accompanying reduction or increase in income tax expense which may result in a corresponding increase or decrease in net income in the period when such determinations are made.

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Results of Operations

Key elements of our Consolidated Statements of Operations, including as a percentage of revenue, are presented in the following table:

| (In thousands) | Year Ended * | | | | | |
|--|-----------------|--------|-------------------|--------|-------------------|--------|
| | January 2, 2021 | | December 28, 2019 | | December 29, 2018 | |
| Revenue | \$ 408,120 | 100.0% | \$ 404,093 | 100.0% | \$ 398,799 | 100.0% |
| Gross margin | 245,306 | 60.1 | 238,422 | 59.0 | 219,439 | 55.0 |
| Research and development | 89,223 | 21.9 | 78,617 | 19.5 | 82,449 | 20.7 |
| Selling, general and, administrative | 95,331 | 23.4 | 82,542 | 20.4 | 91,054 | 22.8 |
| Amortization of acquired intangible assets | 4,449 | 1.1 | 13,558 | 3.4 | 17,690 | 4.4 |
| Restructuring charges | 3,937 | 1.0 | 4,664 | 1.2 | 17,349 | 4.4 |
| Impairment of acquired intangible assets | — | — | — | — | 12,486 | 3.1 |
| Acquisition related charges | — | — | — | — | 1,531 | 0.4 |
| Income from operations | \$ 52,366 | 12.8% | \$ 59,041 | 14.6% | \$ (3,120) | (0.8)% |

* The year ended January 2, 2021 was a 53-week year as compared to the other years presented, which were based on our standard 52-week year

Revenue

| (In thousands) | Year Ended | | | % Change in | |
|----------------|-----------------|-------------------|-------------------|-------------|------|
| | January 2, 2021 | December 28, 2019 | December 29, 2018 | 2020 | 2019 |

| | | | | | | | | |
|---------|----|---------|----|---------|----|---------|------|------|
| Revenue | \$ | 408,120 | \$ | 404,093 | \$ | 398,799 | 1.0% | 1.3% |
|---------|----|---------|----|---------|----|---------|------|------|

Revenue increased \$4.0 million, or 1%, in fiscal 2020 compared to fiscal 2019, primarily driven by increased demand for products used in computing solutions, 5G wireless infrastructure, and industrial applications, offset by broad market weakness and decreases in IP revenue.

Revenue by End Market

We sell our products globally to a broad base of customers in three primary end markets groups: Communications and Computing, Industrial and Automotive, and Consumer. We also provide Intellectual Property licensing and services to these end markets.

Within these end markets, there are multiple segment drivers, including:

- Communications and computing: 5G infrastructure deployments, client computing platforms, and cloud and enterprise servers,
- Industrial and automotive: industrial IoT, factory automation, and automotive electronics,
- Consumer: smart home, and prosumer.

We also generate revenue from the licensing of our IP, the collection of certain royalties, patent sales, the revenue related to our participation in consortia and standard-setting activities, and services. While these activities may be associated with multiple markets, Licensing and services revenue is reported as a separate end market as it has characteristics that differ from other categories, most notably a higher gross margin.

The end market data below is derived from data provided to us by our customers. With a diverse base of customers who may manufacture end products spanning multiple end markets, the assignment of revenue to a specific end market requires the use of judgment. We also recognize certain revenue for which end customers and end markets are not yet known. We assign this revenue first to a specific end market using historical and anticipated usage of the specific products, if possible, and allocate the remainder to the end markets based on either historical usage for each product family or industry application data for certain product types.

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The following are examples of end market applications for the fiscal years presented:

| <u>Communications and Computing</u> | <u>Industrial and Automotive</u> | <u>Consumer</u> | <u>Licensing and Services</u> |
|-------------------------------------|----------------------------------|-----------------|-------------------------------|
| Wireless | Security and Surveillance | Cameras | IP Royalties |
| Wireline | Machine Vision | Displays | Adopter Fees |
| Data Backhaul | Industrial Automation | Wearables | IP Licenses |
| Server Computing | Robotics | Televisions | Patent Sales |
| Client Computing | Automotive | Home Theater | |
| Data Storage | Drones | | |

The composition of our revenue by end market is presented in the following table:

| (In thousands) | Year Ended | | | | | | % Change in | |
|------------------------------|-----------------|--------|-------------------|--------|-------------------|--------|-------------|--------|
| | January 2, 2021 | | December 28, 2019 | | December 29, 2018 | | 2020 | 2019 |
| Communications and Computing | \$ 174,656 | 42.8% | \$ 155,821 | 38.6% | \$ 123,195 | 30.9% | 12.1% | 26.4% |
| Industrial and Automotive | 168,323 | 41.2 | 151,607 | 37.5 | 157,979 | 39.6 | 11.0 | (4.0) |
| Consumer | 45,523 | 11.2 | 75,120 | 18.6 | 99,294 | 24.9 | (39.4) | (24.3) |
| Licensing and Services | 19,618 | 4.8 | 21,545 | 5.3 | 18,331 | 4.6 | (8.9) | 17.5 |
| Total revenue | \$ 408,120 | 100.0% | \$ 404,093 | 100.0% | \$ 398,799 | 100.0% | 1.0% | 1.3% |

Revenue from the Communications and Computing end market increased by 12% in fiscal 2020 compared to fiscal 2019 primarily due to the continued adoption of our products used in servers and client computing platforms, as well as ongoing 5G infrastructure deployments.

Revenue from the Industrial and Automotive end market increased by 11% in fiscal 2020 compared to fiscal 2019, primarily to increased demand for our products used in a broad range of applications including industrial automation and safety, robotics, embedded vision, and automotive electronics.

Revenue from the Consumer end market decreased by 39% in fiscal 2020 compared to fiscal 2019. This segment has been impacted by lower end market demand due to the COVID-19 pandemic, as well as the expected shift in the mix of revenue towards our other market segments.

Revenue from the Licensing and Services end market decreased by 9% in fiscal 2020 compared to fiscal 2019 primarily due to lower HDMI revenue.

Revenue by Geography

We assign revenue to geographies based on ship-to location of the customer.

The composition of our revenue by geography is presented in the following table:

| (In thousands) | Year Ended | | | | | | % Change in | |
|----------------|-----------------|--------|-------------------|--------|-------------------|--------|-------------|------|
| | January 2, 2021 | | December 28, 2019 | | December 29, 2018 | | 2020 | 2019 |
| Asia | \$ 305,183 | 74.8% | \$ 298,765 | 73.9% | \$ 298,119 | 74.8% | 2.1% | 0.2% |
| Americas | 62,137 | 15.2 | 57,936 | 14.4 | 55,134 | 13.8 | 7.3 | 5.1 |
| Europe | 40,800 | 10.0 | 47,392 | 11.7 | 45,546 | 11.4 | (13.9) | 4.1 |
| Total revenue | \$ 408,120 | 100.0% | \$ 404,093 | 100.0% | \$ 398,799 | 100.0% | 1.0% | 1.3% |

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Revenue from Customers

We sell our products to independent distributors and directly to customers. Distributors have historically accounted for a significant portion of our total revenue, and the two distributors groups noted below accounted for more than 10% of our total revenue in the periods covered by this report.

The composition of our revenue by customer is presented in the following table:

| | % of Total Revenue Year Ended | | |
|--------------------------------|----------------------------------|-------------------|-------------------|
| | January 2, 2021 | December 28, 2019 | December 29, 2018 |
| Weikeng Group | 34.8% | 29.8% | 25.4% |
| Arrow Electronics Inc. | 25.1 | 25.4 | 28.7 |
| Other distributors | 23.2 | 26.9 | 28.8 |
| All distributors | 83.1% | 82.1% | 82.9% |
| Direct customers | 12.1 | 12.6 | 12.5 |
| Licensing and services revenue | 4.8 | 5.3 | 4.6 |
| Total revenue | 100.0% | 100.0% | 100.0% |

Gross margin

The composition of our gross margin, including as a percentage of revenue, is presented in the following table:

| (In thousands) | Year Ended | | |
|---------------------------------------|-----------------|-------------------|-------------------|
| | January 2, 2021 | December 28, 2019 | December 29, 2018 |
| Gross margin | \$ 245,306 | \$ 238,422 | \$ 219,439 |
| Gross margin percentage | 60.1% | 59.0% | 55.0% |
| Product gross margin % | 58.1% | 56.7% | 52.9% |
| Licensing and services gross margin % | 100.0% | 100.0% | 98.6% |

Gross margin percentage increased 110 basis points from fiscal 2019 to fiscal 2020. Improved margins were driven by benefits from pricing optimization programs, product cost reductions, and product mix.

Because of its higher margin, the licensing and services portion of our overall revenue can have a disproportionate impact on Gross Margin.

Operating Expenses

Research and development expense

The composition of our Research and development expense, including as a percentage of revenue, is presented in the following table:

| (In thousands) | Year Ended | | | % Change in | |
|--------------------------|-----------------|-------------------|-------------------|-------------|--------|
| | January 2, 2021 | December 28, 2019 | December 29, 2018 | 2020 | 2019 |
| Research and development | \$ 89,223 | \$ 78,617 | \$ 82,449 | 13.5% | (4.6)% |
| Percentage of revenue | 21.9% | 19.5% | 20.7% | | |

Research and development expense includes costs for compensation and benefits, stock compensation, engineering wafers, depreciation, licenses, and outside engineering services. These expenditures are for the design of new products, IP cores, processes, packaging, and software solutions.

The increase in Research and development expense for fiscal 2020 compared to fiscal 2019 was due primarily to increased expenses for stock compensation and increased headcount to support the expansion of our programmable logic product portfolio and acceleration of our new product introduction cadence.

We believe that a continued commitment to Research and development is essential to maintaining product leadership and providing innovative new product offerings and, therefore, we expect to continue to increase our investment in Research and development, particularly with expanded investment in the development of software solutions.

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Selling, general, and administrative expense

The composition of our Selling, general, and administrative expense, including as a percentage of revenue, is presented in the following table:

| (In thousands) | Year Ended | | | % Change in | |
|--------------------------------------|-----------------|-------------------|-------------------|-------------|--------|
| | January 2, 2021 | December 28, 2019 | December 29, 2018 | 2020 | 2019 |
| Selling, general, and administrative | \$ 95,331 | \$ 82,542 | \$ 91,054 | 15.5% | (9.3)% |
| Percentage of revenue | 23.4% | 20.4% | 22.8% | | |

Selling, general, and administrative expense includes costs for compensation and benefits related to selling, general, and administrative employees, commissions, depreciation, professional and outside services, trade show, and travel expenses.

The increase in Selling, general, and administrative expense for fiscal 2020 compared to fiscal 2019 was due primarily to increased expenses for stock compensation and salaries, partially offset by reduced commissions resulting from our restructuring under the Q2 2019 Sales Plan, as discussed in "[Note 7 - Restructuring](#)" to our Consolidated Financial Statements in Part II, Item 8 of this report.

Amortization of acquired intangible assets

The composition of our Amortization of acquired intangible assets, including as a percentage of revenue, is presented in the following table:

| (In thousands) | Year Ended | | | % Change in | |
|--|-----------------|-------------------|-------------------|-------------|---------|
| | January 2, 2021 | December 28, 2019 | December 29, 2018 | 2020 | 2019 |
| Amortization of acquired intangible assets | \$ 4,449 | \$ 13,558 | \$ 17,690 | (67.2)% | (23.4)% |
| Percentage of revenue | 1.1% | 3.4% | 4.4% | | |

The decrease in Amortization of acquired intangible assets for fiscal 2020 compared to fiscal 2019 was due to the end of the amortization period for the majority of our acquired intangible assets during the first quarter of fiscal 2020.

Restructuring charges

The composition of our Restructuring charges, including as a percentage of revenue, is presented in the following table:

| (In thousands) | Year Ended | | | % Change in | |
|-----------------------|-----------------|-------------------|-------------------|-------------|---------|
| | January 2, 2021 | December 28, 2019 | December 29, 2018 | 2020 | 2019 |
| Restructuring charges | \$ 3,937 | \$ 4,664 | \$ 17,349 | (15.6)% | (73.1)% |
| Percentage of revenue | 1.0% | 1.2% | 4.4% | | |

Restructuring charges are comprised of expenses resulting from reductions in our worldwide workforce, consolidation of our facilities, removal of fixed assets from service, and cancellation of software contracts and engineering tools. Details of our restructuring plans and expenses incurred under them are discussed in "Note 7 - Restructuring" to our Consolidated Financial Statements in Part II, Item 8 of this report.

The decrease in Restructuring charges in fiscal 2020 compared to fiscal 2019 was driven by lower charges in the current year for facility closures implemented under an earlier restructuring plan adopted in June 2017, and by lower charges in the current year for severance under the Q1 2020 Plan compared to charges in the prior year period resulting from contract cancellations under the Q2 2019 Sales Plan.

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Impairment of acquired intangible assets

The composition of our Impairment of acquired intangible assets, including as a percentage of revenue, is presented in the following table:

| (In thousands) | Year Ended | | | % Change in | |
|--|-----------------|-------------------|-------------------|-------------|----------|
| | January 2, 2021 | December 28, 2019 | December 29, 2018 | 2020 | 2019 |
| Impairment of acquired intangible assets | \$ — | \$ — | \$ 12,486 | —% | (100.0)% |
| Percentage of revenue | —% | —% | 3.1% | | |

We had no Impairments of acquired intangible assets in fiscal 2020 or 2019.

Acquisition related charges

The composition of our Acquisition related charges, including as a percentage of revenue, is presented in the following table:

| (In thousands) | Year Ended | | | % Change in | |
|-----------------------------|-----------------|-------------------|-------------------|-------------|----------|
| | January 2, 2021 | December 28, 2019 | December 29, 2018 | 2020 | 2019 |
| Acquisition related charges | \$ — | \$ — | \$ 1,531 | —% | (100.0)% |
| Percentage of revenue | —% | —% | 0.4% | | |

Acquisition related charges include legal and professional fees directly related to acquisitions. We incurred no Acquisition related charges in fiscal 2020 or 2019.

Interest Expense

The composition of our Interest expense, including as a percentage of revenue, is presented in the following table:

| (In thousands) | Year Ended | | | % Change in | |
|-----------------------|-----------------|-------------------|-------------------|-------------|---------|
| | January 2, 2021 | December 28, 2019 | December 29, 2018 | 2020 | 2019 |
| Interest expense | \$ (3,702) | \$ (11,731) | \$ (20,600) | (68.4)% | (43.1)% |
| Percentage of revenue | (0.9)% | (2.9)% | (5.2)% | | |

Interest expense is primarily related to our long-term debt, which is further discussed under the Credit Arrangements heading in the Liquidity and Capital Resources section, below. This interest expense is comprised of contractual interest and amortization of original issue discount and debt issuance costs based on the effective interest method.

The decrease in Interest expense for fiscal 2020 compared to fiscal 2019 was largely driven by the significant reduction in the effective interest rate on our long-term debt, coupled with the reduction in the principal balance of our long-term debt due to the additional principal payments made in the current and previous periods.

Other expense, net

The composition of our Other expense, net, including as a percentage of revenue, is presented in the following table:

| (In thousands) | Year Ended | | | % Change in | |
|-----------------------|-----------------|-------------------|-------------------|-------------|-------|
| | January 2, 2021 | December 28, 2019 | December 29, 2018 | 2020 | 2019 |
| Other expense, net | \$ (208) | \$ (2,245) | \$ (249) | (90.7)% | 100+% |
| Percentage of revenue | (0.1)% | (0.6)% | (0.1)% | | |

For fiscal 2020 compared to fiscal 2019, Other expense, net decreased primarily due to the non-recurrence of the \$2.2 million loss on refinancing charge taken to write off the remaining unamortized balance of debt costs and original issue discount related to the long-term debt refinanced during the prior year.

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Income taxes

The composition of our Income tax expense is presented in the following table:

| (In thousands) | Year Ended | | | % Change in | |
|--------------------|-----------------|-------------------|-------------------|-------------|---------|
| | January 2, 2021 | December 28, 2019 | December 29, 2018 | 2020 | 2019 |
| Income tax expense | \$ 1,064 | \$ 1,572 | \$ 2,353 | (32.3)% | (33.2)% |

Our Income tax expense is composed primarily of foreign income and withholding taxes, partially offset by benefits resulting from the release of uncertain tax positions ("UTP") due to statute of limitation expirations that occurred in the respective periods. The decrease in expense in fiscal 2020 as compared to fiscal 2019 is primarily due to the release of uncertain tax positions due to statute of limitations expirations.

We are not currently paying U.S. federal income taxes and do not expect to pay such taxes until we fully utilize our tax net operating loss and credit carryforwards. We expect to pay a nominal amount of state income tax. We are paying foreign income taxes, which are primarily related to withholding taxes on income from foreign royalties, foreign sales, and the cost of operating offshore research and development, marketing, and sales subsidiaries. We updated our evaluation of the valuation allowance position in the United States through January 2, 2021 and concluded that we should continue to maintain a full valuation allowance against the net federal and state deferred tax assets. We will continue to evaluate both positive and negative evidence in future periods to determine if we will realize the deferred tax assets. We accrue interest and penalties related to uncertain tax positions in income tax expense on our Consolidated Statements of Operations. The inherent uncertainties related to the geographical distribution and relative level of profitability among various high and low tax jurisdictions make it difficult to estimate the impact of the global tax structure on our future effective tax rate.

Liquidity and Capital Resources

The following sections discuss material changes in our financial condition from the end of fiscal 2019, including the effects of changes in our Consolidated Balance Sheets, and the effects of our credit arrangements and contractual obligations on our liquidity and capital resources.

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

There is significant uncertainty around the extent and duration of the disruption to our business from the COVID-19 pandemic, and our liquidity and working capital needs may be impacted in future periods.

We believe that our financial resources, including current cash and cash equivalents, cash flow from operating activities, and our credit facilities, will be sufficient to meet our liquidity and working capital needs through at least the next 12 months. As of January 2, 2021, we did not have significant long-term commitments for capital expenditures. In the future, we may continue to consider acquisition opportunities to further extend our product or technology portfolios and further expand our product offerings. In connection with funding capital expenditures, acquisitions, securing additional wafer supply, increasing our working capital, or other operations, we may seek to obtain equity or additional debt financing, or advance purchase payments or similar arrangements with wafer manufacturers. We may also seek to obtain equity or additional debt financing if we experience downturns or cyclical fluctuations in our business that are more severe or longer than we anticipated when determining our current working capital needs. On May 17, 2019, we entered into a Credit Agreement with Wells Fargo Bank, National Association, as administrative agent, and other lenders (our "Current Credit Agreement") that is discussed under the "Credit Arrangements" heading, below.

Liquidity

Cash and cash equivalents

| (In thousands) | January 2, 2021 | December 28, 2019 | \$ Change | % Change |
|---------------------------|-----------------|-------------------|-----------|----------|
| Cash and cash equivalents | \$ 182,332 | \$ 118,081 | \$ 64,251 | 54.4% |

As of January 2, 2021, we had Cash and cash equivalents of \$182.3 million, of which approximately \$121.8 million in Cash and cash equivalents was held by our foreign subsidiaries.

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We manage our global cash requirements considering, among other things, (i) available funds among our subsidiaries through which we conduct business, (ii) the geographic location of our liquidity needs, and (iii) the cost to access international cash balances. The repatriation of non-US earnings may require us to withhold and pay foreign income tax on dividends. This should not result in our recording significant additional tax expense as we have accrued expense based on current withholding rates. As of January 2, 2021, we could access all cash held by our foreign subsidiaries without incurring significant additional expense.

The net increase in Cash and cash equivalents of \$64.3 million between December 28, 2019 and January 2, 2021 was primarily driven by cash flows from the following activities:

Operating activities — Cash provided by operating activities results from net income adjusted for certain non-cash items and changes in assets and liabilities. Cash provided by operating activities was \$91.7 million in fiscal 2020 compared to \$124.1 million in fiscal 2019. This \$32.4 million decrease was driven by \$45.7 million in changes in working capital, primarily the increase in cash used for inventories, prepaid expenses and other current assets, and accounts payable, partially offset by the cash provided by accrued expenses and accounts receivable. This was partially offset by an increase of \$13.3 million provided by improved operating performance. We are using cash provided by operating activities to fund our operations.

Investing activities — Investing cash flows consist primarily of transactions related to capital expenditures and payments for software licenses, and, in the prior year, short-term marketable securities. Net cash used by investing activities in fiscal 2020 was \$20.9 million compared to \$15.5 million in fiscal 2019. This \$5.4 million increase was primarily due to the non-recurrence of the \$9.7 million provided by our liquidation of all short-term investments in the first quarter of fiscal 2019. Total cash used for capital expenditures and payments for software licenses decreased \$4.3 million to \$20.9 million in fiscal 2020 from \$25.2 million in fiscal 2019 primarily due to lower expenditures for software enhancements, office consolidation, and test equipment.

Financing activities — Financing cash flows consist primarily of activity on our long-term debt, proceeds from the exercise of options to acquire common stock, tax payments related to the net share settlement of restricted stock units, and purchases of treasury stock. During fiscal 2020, we drew \$50.0 million on our revolving loan facility to further strengthen our liquidity position, and we paid quarterly installments totaling \$26.3 million on our long-term debt, which

fulfilled the required quarterly installments through the first quarter of fiscal 2021. During fiscal 2019, we made a total of \$117.0 million in principal payments in addition to the cash flows related to refinancing our long-term debt. Payments for tax withholdings on vesting of RSUs partially offset by employee exercises of stock options used net cash flows of \$16.9 million in fiscal 2020, which is a change of approximately \$24.0 million from the \$7.1 million provided in fiscal 2019. During fiscal 2020, we also purchased \$15.0 million of treasury stock, as further discussed below under "Share Repurchase Program."

Accounts receivable, net

| <i>(In thousands)</i> | <u>January 2, 2021</u> | <u>December 28, 2019</u> | <u>\$ Change</u> | <u>% Change</u> |
|----------------------------------|------------------------|--------------------------|------------------|-----------------|
| Accounts receivable, net | \$ 64,581 | \$ 64,917 | \$ (336) | (0.5)% |
| Days sales outstanding - Overall | 55 | 59 | (4) | |

Accounts receivable, net as of January 2, 2021 decreased by approximately \$0.3 million, or approximately 1%, compared to December 28, 2019. This resulted primarily from the timing of shipments in December 2020 compared to December 2019. We calculate Days sales outstanding on the basis of a 365-day year as Accounts receivable, net at the end of the quarter divided by sales during the quarter annualized and then multiplied by 365.

Inventories

| <i>(In thousands)</i> | <u>January 2, 2021</u> | <u>December 28, 2019</u> | <u>\$ Change</u> | <u>% Change</u> |
|---------------------------|------------------------|--------------------------|------------------|-----------------|
| Inventories | \$ 64,599 | \$ 54,980 | \$ 9,619 | 17.5% |
| Days of inventory on hand | 139 | 123 | 16 | |

Inventories as of January 2, 2021 increased \$9.6 million, or approximately 18%, compared to December 28, 2019 primarily to meet the increased demands of our customers.

The Days of inventory on hand ratio compares the inventory balance at the end of a quarter to the cost of sales in that quarter. We calculate Days of inventory on hand on the basis of a 365-day year as Inventories at the end of the quarter divided by Cost of sales during the quarter annualized and then multiplied by 365. Our Days of inventory on hand increased to 139 days at January 2, 2021 from 123 days at December 28, 2019. This increase resulted from inventory increases to meet the increased demands of our customers.

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Credit Arrangements

On May 17, 2019, we entered into our Current Credit Agreement. The details of this arrangement are described in "[Note 6 - Long-Term Debt](#)" in the accompanying Notes to Consolidated Financial Statements.

As of January 2, 2021, we had no significant long-term purchase commitments for capital expenditures or existing used or unused credit arrangements beyond the secured revolving loan facility described above.

Share Repurchase Program

On February 14, 2020, our Board of Directors approved a stock repurchase program pursuant to which up to \$40.0 million of outstanding common stock could be repurchased from time to time. The duration of the repurchase program was twelve months. Under this program during the fourth quarter of fiscal 2020, approximately 0.4 million shares were repurchased for \$15.0 million, or an average price paid per share of \$38.98. All repurchased shares were retired by the end of the 2020 fiscal year. All repurchases were open market transactions funded from available working capital. The twelve-month 2020 program expired during the first quarter of fiscal 2021, during which no additional shares were repurchased.

Contractual Cash Obligations

The following table summarizes our contractual cash obligations at January 2, 2021:

| Fiscal year | Operating leases (1) | | Long-term Debt (2) | |
|-----------------------|-----------------------------|---------------|---------------------------|----------------|
| <i>(In thousands)</i> | | | | |
| 2021 | \$ | 5,615 | \$ | 15,512 |
| 2022 | | 5,378 | | 19,648 |
| 2023 | | 5,057 | | 19,402 |
| 2024 | | 4,861 | | 124,414 |
| 2025 | | 3,552 | | — |
| Thereafter | | 3,229 | | — |
| | \$ | <u>27,692</u> | \$ | <u>178,976</u> |

- (1) Certain of our facilities and equipment are leased under operating leases, which expire at various times through 2027.
- (2) Cash payments due for long-term debt include estimated interest payments, which are based on outstanding principal amounts, currently effective interest rates as of January 2, 2021, timing of scheduled payments, and the debt term. See Liquidity section of Item 7 for further discussion pertaining to our Credit Arrangements.

The table above does not include amounts related to uncertain tax positions because we cannot reliably estimate the timing of the settlement of such liabilities.

Our significant operating leases are for our facilities in Hillsboro and Portland, Oregon; San Jose, California; Muntinlupa City, Philippines; and Shanghai, China.

Our corporate headquarters is located in our facility in Hillsboro, Oregon, which is leased until November 2022. Annual rental costs are estimated at \$0.6 million with 3% annual increases.

The lease for our former office space in Portland, Oregon expires in March 2025. Annual rental costs are estimated at \$0.7 million with average annual increases of approximately 5%. Under a previously approved restructuring plan, we fully vacated the space in Portland, Oregon in early 2019 and subleased the vacated space.

Our lease in San Jose, California expires September 2026 with total annual rental costs estimated to be \$2.4 million and annual increases of approximately 3%. Under a previously approved restructuring plan, we vacated approximately 50% of our facility in San Jose, California in the fourth quarter of fiscal 2018 and intend to sublease the vacated space.

Two of our leases in Muntinlupa City, Philippines expire in May 2025 and June 2025, with total annual rental costs estimated to be \$0.7 million and annual increases of approximately 5%. Our lease in Shanghai expires in May 2021, with total annual rental costs estimated to be \$1.8 million.

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New Accounting Pronouncements

The information contained under the heading "New Accounting Pronouncements" in [Note 1 - Nature of Operations and Significant Accounting Policies](#) to our Consolidated Financial Statements in Part II, Item 8 is incorporated by reference into this Part II, Item 7.

Off-Balance Sheet Arrangements

As of January 2, 2021, we did not have any off-balance sheet arrangements of the type described by Item 303(a)(4) of SEC Regulation S-K.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

Market risk represents the risk of loss that may impact our financial position due to adverse changes in financial market prices and rates. Our market risk exposure is primarily a result of fluctuations in foreign currency exchange rates and interest rates. We assess these risks on a regular basis and have established policies that are designed to protect against the adverse effects of these and other potential exposures.

Foreign Currency Exchange Rate Risk

While our revenues and the majority of our expenses are denominated in U.S. dollars, our financial position and results of operations are subject to foreign currency exchange rate risk as a result of having various international subsidiary and branch operations. Historically, exposure to foreign currency exchange rate risk has not had a material impact on our results from operations. At times in the past we have entered into foreign currency forward exchange contracts in relation to certain activities, which mitigated the foreign currency exchange rate exposure from an economic perspective, but these were not designated as "effective" hedges under U.S. GAAP. The two foreign currency forward exchange contracts that we held at December 28, 2019 matured in June 2020, and we did not enter into any new contracts during fiscal 2020. As of January 2, 2021, we had no foreign currency foreign exchange contracts.

Interest Rate Risk

We are exposed to interest rate risk related to our indebtedness. At January 2, 2021, we had \$171.9 million outstanding under our Current Credit Agreement. A hypothetical increase in the one-month LIBOR by 1% (100 basis points) would increase our future interest expense by approximately \$0.4 million per quarter.

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**LATTICE SEMICONDUCTOR CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS**

| | Year Ended | | |
|--|----------------------------|------------------------------|------------------------------|
| | January 2, 2021 | December 28, 2019 | December 29, 2018 |
| <i>(In thousands, except per share data)</i> | | | |
| Revenue | \$ 408,120 | \$ 404,093 | \$ 398,799 |
| Cost of revenue | 162,814 | 165,671 | 179,360 |
| Gross margin | 245,306 | 238,422 | 219,439 |
| Operating expenses: | | | |
| Research and development | 89,223 | 78,617 | 82,449 |
| Selling, general, and administrative | 95,331 | 82,542 | 91,054 |
| Amortization of acquired intangible assets | 4,449 | 13,558 | 17,690 |
| Restructuring charges | 3,937 | 4,664 | 17,349 |
| Impairment of acquired intangible assets | — | — | 12,486 |
| Acquisition related charges | — | — | 1,531 |
| Total operating expenses | 192,940 | 179,381 | 222,559 |
| Income (loss) from operations | 52,366 | 59,041 | (3,120) |
| Interest expense | (3,702) | (11,731) | (20,600) |
| Other expense, net | (208) | (2,245) | (249) |

| | | | |
|--|-----------|-----------|-------------|
| Income (loss) before income taxes | 48,456 | 45,065 | (23,969) |
| Income tax expense | 1,064 | 1,572 | 2,353 |
| Net income (loss) | \$ 47,392 | \$ 43,493 | \$ (26,322) |
| Net income (loss) per share: | | | |
| Basic | \$ 0.35 | \$ 0.33 | \$ (0.21) |
| Diluted | \$ 0.34 | \$ 0.32 | \$ (0.21) |
| Shares used in per share calculations: | | | |
| Basic | 135,220 | 132,471 | 126,564 |
| Diluted | 141,276 | 137,274 | 126,564 |

The accompanying notes are an integral part of these Consolidated Financial Statements

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LATTICE SEMICONDUCTOR CORPORATION CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

| (In thousands) | Year Ended | | |
|---|--------------------|----------------------|----------------------|
| | January 2, 2021 | December 28, 2019 | December 29, 2018 |
| Net income (loss) | \$ 47,392 | \$ 43,493 | \$ (26,322) |
| Other comprehensive income (loss): | | | |
| Translation adjustment, net of tax | 1,533 | 341 | (1,271) |
| Change in actuarial valuation of defined benefit pension | (678) | (602) | 369 |
| Unrealized gain related to marketable securities, net of tax | — | 42 | 41 |
| Reclassification adjustment for gains related to marketable securities included in Other expense, net of tax | — | (53) | (18) |
| Comprehensive income (loss) | \$ 48,247 | \$ 43,221 | \$ (27,201) |

The accompanying notes are an integral part of these Consolidated Financial Statements

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LATTICE SEMICONDUCTOR CORPORATION CONSOLIDATED BALANCE SHEETS

| (In thousands, except share and par value data) | January 2, 2021 | December 28, 2019 |
|--|--------------------|----------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 182,332 | \$ 118,081 |
| Accounts receivable, net of allowance for credit losses | 64,581 | 64,917 |
| Inventories, net | 64,599 | 54,980 |
| Prepaid expenses and other current assets | 22,331 | 24,452 |
| Total current assets | 333,843 | 262,430 |
| Property and equipment, net | 39,666 | 39,230 |
| Operating lease right-of-use assets | 22,178 | 23,591 |
| Intangible assets, net | 6,321 | 6,977 |
| Goodwill | 267,514 | 267,514 |
| Deferred income taxes | 577 | 478 |
| Other long-term assets | 9,968 | 11,796 |
| Total assets | \$ 680,067 | \$ 612,016 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$ 27,530 | \$ 44,350 |
| Accrued expenses | 21,411 | 20,591 |
| Accrued payroll obligations | 18,028 | 13,404 |
| Current portion of long-term debt | 12,762 | 21,474 |
| Total current liabilities | 79,731 | 99,819 |
| Long-term debt, net of current portion | 157,934 | 125,072 |
| Long-term operating lease liabilities, net of current portion | 18,906 | 21,438 |
| Other long-term liabilities | 39,069 | 38,028 |
| Total liabilities | 295,640 | 284,357 |
| Contingencies (Note 14) | | |
| 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; 136,236,000 shares issued and outstanding as of January 2, 2021 and 133,883,000 shares issued and outstanding as of December 28, | 1,362 | 1,339 |

| | | |
|--|------------|------------|
| 2019 | | |
| Additional paid-in capital | 770,711 | 762,213 |
| Accumulated deficit | (385,898) | (433,290) |
| Accumulated other comprehensive loss | (1,748) | (2,603) |
| Total stockholders' equity | 384,427 | 327,659 |
| Total liabilities and stockholders' equity | \$ 680,067 | \$ 612,016 |

The accompanying notes are an integral part of these Consolidated Financial Statements

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LATTICE SEMICONDUCTOR CORPORATION CONSOLIDATED STATEMENTS OF CASH FLOWS

| (In thousands) | Year Ended | | |
|---|--------------------|----------------------|----------------------|
| | January 2, 2021 | December 28, 2019 | December 29, 2018 |
| Cash flows from operating activities: | | | |
| Net income (loss) | \$ 47,392 | \$ 43,493 | \$ (26,322) |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Depreciation and amortization | 25,140 | 33,056 | 39,261 |
| Stock-based compensation expense | 40,372 | 18,899 | 13,646 |
| Amortization of right-of-use assets | 5,960 | 5,797 | — |
| Amortization of debt issuance costs and discount | 400 | 1,659 | 2,230 |
| Loss on refinancing of long-term debt | — | 2,235 | — |
| Impairment of operating lease right-of-use asset | — | 977 | — |
| Impairment of acquired intangible assets | — | — | 12,486 |
| Other non-cash adjustments | (256) | (374) | (79) |
| Changes in assets and liabilities: | | | |
| Accounts receivable, net | 336 | (4,027) | (3,978) |
| Inventories, net | (9,619) | 12,116 | 13,177 |
| Prepaid expenses and other assets | (6,441) | 3,740 | (11,667) |
| Accounts payable | (16,820) | 12,470 | (3,470) |
| Accrued expenses | 5,715 | (3,209) | 16,795 |
| Accrued payroll obligations | 4,624 | 4,039 | (1,051) |
| Operating lease liabilities, current and long-term portions | (5,715) | (6,896) | — |
| Income taxes payable | 599 | 162 | 498 |
| Deferred licensing and services revenue | — | — | (68) |
| Net cash provided by operating activities | 91,687 | 124,137 | 51,458 |
| Cash flows from investing activities: | | | |
| Capital expenditures | (12,121) | (15,590) | (8,384) |
| Cash paid for software licenses | (8,747) | (9,601) | (8,123) |
| Proceeds from sales of and maturities of short-term marketable securities | — | 9,655 | 5,000 |
| Purchases of marketable securities | — | — | (9,603) |
| Net cash used in investing activities | (20,868) | (15,536) | (21,110) |
| Cash flows from financing activities: | | | |
| Restricted stock unit tax withholdings | (26,965) | (10,084) | (2,370) |
| Proceeds from issuance of common stock | 10,103 | 17,166 | 29,288 |
| Purchases of treasury stock | (14,989) | — | — |
| Proceeds from long-term debt | 50,000 | 206,500 | — |
| Original issue discount and debt issuance costs | — | (2,086) | — |
| Repayment of long-term debt | (26,250) | (321,408) | (43,759) |
| Net cash used in financing activities | (8,101) | (109,912) | (16,841) |
| Effect of exchange rate change on cash | 1,533 | 341 | (1,271) |
| Net increase (decrease) in cash and cash equivalents | 64,251 | (970) | 12,236 |
| Beginning cash and cash equivalents | 118,081 | 119,051 | 106,815 |
| Ending cash and cash equivalents | \$ 182,332 | \$ 118,081 | \$ 119,051 |

Supplemental disclosure of cash flow information and non-cash investing and financing activities:

| | | | |
|--|----------|-----------|-----------|
| Interest paid | \$ 3,700 | \$ 10,995 | \$ 18,607 |
| Operating lease payments | \$ 7,713 | \$ 8,425 | \$ — |
| Income taxes paid, net of refunds | \$ 1,868 | \$ 3,393 | \$ 3,054 |
| Accrued purchases of plant and equipment | \$ 975 | \$ 826 | \$ 110 |
| Operating lease right-of-use assets obtained in exchange for lease obligations | \$ 2,645 | \$ 747 | \$ — |

The accompanying notes are an integral part of these Consolidated Financial Statements

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LATTICE SEMICONDUCTOR CORPORATION CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

| (In thousands, except par value data) | Common Stock (\$0.01 par value) | | Additional Paid-in Capital | Treasury Stock | Accumulated Deficit | Accumulated Other Comprehensive Income (Loss) | Total |
|---|------------------------------------|----------|----------------------------------|-------------------|------------------------|--|------------|
| | Shares | Amount | | | | | |
| Balances, December 30, 2017 (1) | 123,895 | \$ 1,239 | \$ 695,768 | \$ — | \$ (450,461) | \$ (1,452) | \$ 245,094 |
| Components of comprehensive income, net of tax: | | | | | | | |
| Net loss | — | — | — | — | (26,322) | — | (26,322) |
| Other comprehensive income (loss) | — | — | — | — | — | (879) | (879) |
| Total comprehensive loss | | | | | | | (27,201) |
| Common stock issued in connection with employee equity incentive plans, net of shares withheld for employee taxes | | | | | | | |
| | 5,833 | 58 | 26,860 | — | — | — | 26,918 |
| Stock-based compensation expense | — | — | 13,646 | — | — | — | 13,646 |
| Balances, December 29, 2018 | 129,728 | \$ 1,297 | \$ 736,274 | \$ — | \$ (476,783) | \$ (2,331) | \$ 258,457 |
| Components of comprehensive income, net of tax: | | | | | | | |
| Net income | — | — | — | — | 43,493 | — | 43,493 |
| Other comprehensive income (loss) | — | — | — | — | — | (272) | (272) |
| Total comprehensive income | | | | | | | 43,221 |
| Common stock issued in connection with employee equity incentive plans, net of shares withheld for employee taxes | | | | | | | |
| | 4,155 | 42 | 7,040 | — | — | — | 7,082 |
| Stock-based compensation expense | — | — | 18,899 | — | — | — | 18,899 |
| Balances, December 28, 2019 | 133,883 | \$ 1,339 | \$ 762,213 | \$ — | \$ (433,290) | \$ (2,603) | \$ 327,659 |
| Components of comprehensive income, net of tax: | | | | | | | |
| Net income | — | — | — | — | 47,392 | — | 47,392 |
| Other comprehensive income (loss) | — | — | — | — | — | 855 | 855 |
| Total comprehensive income | | | | | | | 48,247 |
| Common stock issued in connection with employee equity incentive plans, net of shares withheld for employee taxes | | | | | | | |
| | 2,738 | 27 | (16,889) | — | — | — | (16,862) |
| Stock-based compensation expense | — | — | 40,372 | — | — | — | 40,372 |
| Stock repurchase | — | — | — | (14,989) | — | — | (14,989) |
| Retirement of treasury stock | (385) | (4) | (14,985) | 14,989 | — | — | — |
| Balances, January 2, 2021 | 136,236 | \$ 1,362 | \$ 770,711 | \$ — | \$ (385,898) | \$ (1,748) | \$ 384,427 |

(1) Balances as of December 30, 2017 include opening balance adjustments to Accumulated deficit made as a result of changes in accounting principle due to the adoption of ASC 606, Revenue from Contracts With Customers, which we adopted as of the beginning of fiscal 2018 using the modified retrospective transition method.

The accompanying notes are an integral part of these Consolidated Financial Statements

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LATTICE SEMICONDUCTOR CORPORATION NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 - Basis of Presentation and Significant Accounting Policies

Basis of Presentation and Use of Estimates

The accompanying Consolidated Financial Statements have been prepared in accordance with U.S. Generally Accepted Accounting Principles ("U.S. GAAP"). They include the accounts of Lattice and its subsidiaries after the elimination of all intercompany balances and transactions.

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and judgments affecting the amounts reported in our consolidated condensed financial statements and the accompanying notes. The actual results that we experience may differ materially from our estimates.

Certain prior year balances have been reclassified to conform to the current year's presentation.

Fiscal Reporting Periods

We report based on a 52 or 53-week fiscal year ending on the Saturday closest to December 31. Our fiscal 2020 was a 53-week year that ended on January 2, 2021. Our fiscal 2019, and 2018 were 52-week years that ended on December 28, 2019 and December 29, 2018, respectively. All references to quarterly or annual financial results are references to the results for the relevant fiscal period.

Concentrations of Risk

Potential exposure to concentrations of risk may impact revenue, accounts receivable, and supply of wafers for our new products.

Distributors have historically accounted for a significant portion of our total revenue. Our two largest distributor groups, the Weikeng Group ("Weikeng") and Arrow Electronics, Inc. ("Arrow"), each account for more than 10% of our total revenue and our net accounts receivable. Revenue attributable to distributors as a percentage of total revenue is presented in the following table:

Year Ended

| | January 2, 2021 | December 28, 2019 | December 29, 2018 |
|--------------------------------------|------------------------|--------------------------|--------------------------|
| Weikeng Group | 35% | 30% | 25% |
| Arrow Electronics Inc. | 25 | 25 | 29 |
| Other distributors | 23 | 27 | 29 |
| Revenue attributable to distributors | <u>83%</u> | <u>82%</u> | <u>83%</u> |

At January 2, 2021 and December 28, 2019, Weikeng accounted for 47% and 38%, respectively, and Arrow accounted for 45% and 40%, respectively, of net accounts receivable.

Concentration of credit risk with respect to accounts receivable is mitigated by our credit and collection process including active management of collections, credit limits, routine 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.

We rely on a limited number of foundries for our wafer purchases. We seek to mitigate the concentration of supply risk by establishing, maintaining and managing multiple foundry relationships; however, certain of our products are sourced from a single foundry and changing from one foundry to another can have a significant cost, or create delays in production or shipments, among other factors.

Cash and Cash Equivalents

We consider all investments that are readily convertible into cash and that 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, which approximates fair value. Deposits with financial institutions at times exceed Federal Deposit Insurance Corporation insurance limits.

Foreign Exchange and Translation of Foreign Currencies

While our revenues and the majority of our expenses are denominated in U.S. dollars, we also have international subsidiaries and branch operations that conduct some transactions in currencies that differ from the functional currency of that entity. Gains or losses from foreign exchange rate fluctuations on balances denominated in currencies that differ from the functional currencies are reflected in Other expense, net.

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 (See our Consolidated Statements of Stockholders' Equity).

Revenue Recognition

Under the terms of ASC 606, "*Revenue from Contracts with Customers*", we recognize revenue when we satisfy performance obligations as evidenced by the transfer of control of our products or services to customers. For sales to distributors, we have concluded that our contracts are with the distributor, rather than with the distributor's end customer, as we hold a contract bearing enforceable rights and obligations only with the distributor. The majority of our revenue is derived from product sales. We consider customer purchase orders, which in some cases are governed by master sales agreements, to be the contracts with a customer. For each contract, we consider our promise to transfer each distinct product to be the identified performance obligations. Revenue for product sales is recognized at the time of product shipment, as determined by the agreed upon contract shipping terms.

Our Licensing and services revenue is comprised of revenue from our intellectual property ("IP") core licensing activity, patent monetization activities, design services, and royalty and adopter fee revenue from our standards activities. These activities are complementary to our product sales and help us to monetize our IP associated with our technology and standards. We consider licensing arrangements with our customers and agreements with the standards consortia of which we are a member to be the contract. For each contract, we consider the promise to deliver a license that grants the customer the right to use the IP, as well as any professional services provided under the contract, as distinct performance obligations. We recognize license revenue at the point in time that control of the license transfers to the customer, which is generally upon delivery, or as usage occurs.

We measure revenue based on the amount of consideration we expect to be entitled to in exchange for products or services. Variable consideration is estimated and reflected as an adjustment to the transaction price. We determine variable consideration, which consists primarily of various sales price concessions, by estimating the most likely amount of consideration we expect to receive from the customer based on an analysis of historical rebate claims over a period of time considered adequate to account for current pricing and business trends. Sales rebates earned by customers are offset against their receivable balances. Rebates earned by customers when they do not have outstanding receivable balances are recorded within Accrued expenses. Licensing and services revenue includes HDMI and MHL standards revenue, as well as certain IP licenses, include variable consideration in the form of usage-based royalties.

We generally provide an assurance warranty that our products will substantially conform to the published specifications for twelve months from the date of shipment. In some cases, the warranty period may be longer than twelve months. We do not separately price or sell the assurance warranty. Our liability is limited to either a credit equal to the purchase price or replacement of the defective part. Under the practical expedient provided by ASC 340, we generally expense sales commissions when incurred because the amortization period would be less than one year. We record these costs within Selling, general, and administrative expenses. Substantially all of our performance obligations are satisfied within twelve months.

Inventories and Cost of Revenue

Inventories are stated at the lower of actual cost (determined using the first-in, first-out method) or net realizable value. We review and set standard costs quarterly to approximate current actual manufacturing costs. Our manufacturing overhead standards for product costs are calculated assuming full absorption of actual spending over actual costs. The valuation of inventory requires us to estimate excess or obsolete inventory. Material assumptions we use to estimate necessary inventory carrying value adjustments can be unique to each product and are based on specific facts and circumstances. In determining provisions for excess or obsolete products, we consider assumptions such as changes in business and economic conditions, projected customer demand for our products, and changes in technology or customer requirements. The creation of such provisions results in a write-down of inventory to net realizable value and a charge to Cost of revenue. Lower of cost or net realizable value is based on assumptions such as recent historical sales activity and selling prices, as well as estimates of future selling prices. Shipping and handling costs are included in Cost of revenue in our Consolidated Statements of Operations.

Property and Equipment

Property and equipment are stated at cost. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the related assets, generally three to five years for equipment and software, and one to three years for tooling. Leasehold improvements are amortized over the shorter of the non-cancelable lease term or the estimated useful life of the assets. We capitalize costs for the fabrication of masks used by our foundry partners to manufacture our products. The capitalized mask costs begin depreciating to Cost of revenue once the products go into production, and depreciation is straight-lined over a three-year period, which is the expected useful life of the mask. Upon disposal of property and equipment, the accounts are relieved of the costs and related accumulated depreciation and amortization, and resulting gains or losses are reflected in the Consolidated Statements of Operations for recognized gains and losses. Repair and maintenance costs are expensed as incurred.

Impairment of Long-Lived Assets

Long-lived assets, which consist primarily of property and equipment, amortizable intangible assets, and right-of-use assets, are carried on our financial statements based on their cost less accumulated depreciation or amortization. We monitor the carrying value of our long-lived assets for potential impairment and test the recoverability of such assets whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. These events or changes in circumstances, including management decisions pertaining to such assets, are referred to as impairment indicators. If an impairment indicator occurs, we perform a test of recoverability by comparing the carrying value of the asset group to its undiscounted expected future cash flows. If the carrying values are in excess of undiscounted expected future cash flows, we measure any impairment by comparing the fair value of the asset group to its carrying value. Fair value is generally determined by considering (i) internally developed discounted projected cash flow analysis of the asset group; (ii) actual third-party valuations; and/or (iii) information available regarding the current market for similar asset groups. If the fair value of the asset group is determined to be less than the carrying amount of the asset group, an impairment in the amount of the difference is recorded in the period that the impairment indicator occurs and is included in our Consolidated Statements of Operations. Estimating future cash flows requires significant judgment and projections may vary from the cash flows eventually realized, which could impact our ability to accurately assess whether an asset has been impaired. There has been no occurrence of events to date that would trigger an impairment analysis of property and equipment. The results of our assessments of amortizable intangible assets are detailed in "[Note 9 - Intangible Assets](#)."

Valuation of Goodwill

Goodwill is an asset representing the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognized. Goodwill is not amortized, but is instead tested for impairment annually during the fourth quarter and whenever events or changes in circumstances indicate the carrying value of goodwill may not be recoverable. When evaluating whether goodwill is impaired, we make a qualitative assessment to determine if it is more likely than not that the reporting unit's fair value is less than the carrying amount. If the qualitative assessment determines that it is more likely than not that the fair value is less than the carrying amount, the fair value of the reporting unit is compared with its carrying value (including goodwill). If the fair value of the reporting unit is less than its carrying value, then goodwill impairment exists for the reporting unit. The impairment loss, if any, is recognized for the amount by which the carrying value exceeds the fair value. If the fair value of the reporting unit exceeds its carrying value, no further impairment analysis is needed. For purposes of testing goodwill for impairment, we currently operate as a single reporting unit.

No impairment charges relating to goodwill were recorded for either fiscal 2020 or 2019, as no indicators of impairment were present. We determined that the strategic decision to discontinue our millimeter wave business in the second quarter of 2018 constituted a triggering event related to goodwill, and we evaluated our goodwill balance as of June 30, 2018. We concluded that goodwill was not impaired, and no impairment charges relating to goodwill were recorded for fiscal 2018.

Leases

We account for leases under the terms of ASC 842, "Leases," which requires lessees to record assets and liabilities on the balance sheet for all leases with terms longer than 12 months. Upon adoption, we elected the "package of practical expedients" that would allow us to carryforward our historical lease classifications, not reassess historical contracts to determine if they contain leases, and not reassess the initial direct costs for any existing leases. We also elected the practical expedient to not separate lease and non-lease components, which we applied to all asset classes. Concurrent with our adoption of Topic 842, we early adopted ASU 2019-01, *Leases (Topic 842): Codification Improvements*, which granted disclosure relief for interim periods during the year in which a company adopted Topic 842.

Right-of-use ("ROU") assets represent our right to use an underlying asset for the lease term, and lease liabilities represent our obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized on the commencement date of the lease based on the present value of lease payments over the lease term. As most of our leases do not provide an implicit rate, we determine the present value of lease payments using an incremental borrowing rate based on information from our commercial bank for an equivalent borrowing and term in the respective region as of the lease commencement date. At inception, we determine if an arrangement is a lease, if it includes options to extend or terminate the lease, and if it is reasonably certain that we will exercise the options. Lease cost, representing lease payments over the term of the lease and any capitalizable direct costs less any incentives received, is recognized on a straight-line basis over the lease term as lease expense. We have operating leases for corporate offices, sales offices, research and development facilities, storage facilities, and a data center.

The exercise of lease renewal options is at our sole discretion. When deemed reasonably certain of exercise, the renewal options are included in the determination of the lease term and lease payment obligation, respectively. For our leases that contain variable lease payments, residual value guarantees, or restrictive covenants, we have concluded that these inputs are not significant to the determination of the ROU asset and lease liability.

Research and Development

Research and development expenses include costs for compensation and benefits, engineering wafers, depreciation, licenses, and outside engineering services. These expenditures are for the design of new products, intellectual property cores, processes, packaging, and software solutions. Research and development costs are generally expensed as incurred, with certain licensed technology agreements capitalized as intangible assets and amortized to Research and development expense over their estimated useful lives.

Restructuring Charges

Expenses associated with exit or disposal activities are recognized when incurred under ASC 420, "*Exit or Disposal Cost Obligations*," for everything except severance expenses and vacated leased facilities. Because we have a history of paying severance benefits, the cost of severance benefits associated with a restructuring plan is recorded when such costs are probable and the amount can be reasonably estimated in accordance with ASC 712, "*Compensation - Nonretirement Postemployment Benefits*." When leased facilities are vacated, the amount of any ROU asset impairment is calculated in accordance with ASC 360, "*Property, Plant, and Equipment*" and recorded as a part of restructuring charges. Expenses from other exit or disposal activities, including the cancellation of software contracts and engineering tools or the abandonment of long-lived assets, is recorded as a part of restructuring charges.

Accounting for Income Taxes

Our provision for income tax is comprised of our current tax liability and changes in deferred tax assets and liabilities. Deferred tax assets and liabilities are recognized for the expected tax consequences of temporary differences between the tax bases of assets and liabilities and their reported amounts in the financial statements using enacted tax rates and laws that will be in effect when the difference is expected to reverse. Valuation allowances are provided to reduce deferred tax assets to an amount that in management's judgment is more-likely-than-not to be recoverable against future taxable income. The determination of a valuation allowance and when it should be released requires complex judgment.

In assessing the ability to realize deferred tax assets, we evaluate both positive and negative evidence that may exist and consider whether it is more-likely-than-not that some portion or all of the deferred tax assets will be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Any adjustment to the net deferred tax asset valuation allowance is recorded in the Consolidated Statements of Operations for the period that the adjustment is determined to be required.

Our income tax calculations are based on application of the respective U.S. federal, state or foreign tax law. Our tax filings, however, are subject to audit by the relevant tax authorities. Accordingly, we recognize tax liabilities based upon our estimate of whether, and the extent to which, additional taxes will be due when such estimates are more-likely-than-not to be sustained. An uncertain income tax position will not be recognized if it has less than a 50% likelihood of being sustained. To the extent the final tax liabilities are different than the amounts originally accrued, the increases or decreases as well as any interest or penalties are recorded as income tax expense or benefit in the Consolidated Statements of Operations.

Stock-Based Compensation

We estimate the fair value of share-based awards consistent with the provisions of ASC 718, "Compensation - Stock Compensation." We value RSUs using the closing market price on the date of grant, and we value stock options using the Black-Scholes option pricing model. We have also granted RSUs with a market condition to certain executives. The awards with a market condition have a three-year vesting period and vest between 0% and 250% of the target amount, based on the Company's relative Total Shareholder Return ("TSR") over the measurement period compared to the TSR of a component of companies of the PHLX Semiconductor Sector Index for awards granted in fiscal 2018 and 2019 or the Russell 2000 index for awards granted in 2020. TSR is measured as stock price appreciation in the performance period. We have also granted RSUs with a performance condition to our President and Chief Executive Officer, which will vest and become payable based upon the Company's generating specified "adjusted" EBITDA levels on a trailing four-quarter basis in any two consecutive trailing four-quarter periods. We assess the probability of achieving the performance condition on a quarterly basis. We valued the RSUs with a performance condition using the market price on the date of grant.

Segment Information

As of January 2, 2021, we had one operating segment: the core Lattice business, which includes semiconductor devices, evaluation boards, development hardware, and related intellectual property licensing, services, and sales. Our chief operating decision maker is the Chief Executive Officer, who reviews operating results and financial information presented on a consolidated basis for purposes of making operating decisions, allocating resources, and evaluating financial performance.

New Accounting Pronouncements

In December 2019, the FASB issued ASU 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes*, which adds new guidance for accounting for tax law changes, year-to-date losses in interim periods, and determining how to apply the income tax guidance to franchise taxes that are partially based on income, as well as other changes to simplify accounting for income taxes. The ASU is effective for public companies for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020. Entities may early adopt the ASU in any interim period for which financial statements have not yet been issued (or made available for issuance). We are currently assessing the impact of ASU 2019-12 on our consolidated financial statements and related disclosures.

Note 2 - Net Income (Loss) Per Share

Our calculation of the diluted share count includes the number of shares from our equity awards with market conditions or performance conditions that would be issuable under the terms of such awards at the end of the reporting period. For equity awards with a market condition, the maximum number of shares issuable are included in the diluted share count as of January 2, 2021, as the market condition would have been achieved at the highest level of vesting if measured as of the end of the reporting period. For equity awards with a performance condition, no shares are included in the diluted share count as of January 2, 2021, as vesting of future tranches of these awards is contingent upon achievement of the performance condition over two consecutive trailing four-quarter periods, which has not yet been achieved. See "[Note 10 - Stock-Based Compensation Plans](#)" to our consolidated financial statements for further discussion of our equity awards with market or performance conditions.

A summary of basic and diluted Net income (loss) per share is presented in the following table:

| | Year Ended | | |
|---|--------------------|----------------------|----------------------|
| | January 2, 2021 | December 28, 2019 | December 29, 2018 |
| <i>(in thousands, except per share data)</i> | | | |
| Net income (loss) | \$ 47,392 | \$ 43,493 | \$ (26,322) |
| Shares used in basic Net income (loss) per share | 135,220 | 132,471 | 126,564 |
| Dilutive effect of stock options, RSUs, ESPP shares, and equity awards with a market condition or performance condition | 6,056 | 4,803 | — |
| Shares used in diluted Net income (loss) per share | 141,276 | 137,274 | 126,564 |
| Basic Net income (loss) per share | \$ 0.35 | \$ 0.33 | \$ (0.21) |
| Diluted Net income (loss) per share | \$ 0.34 | \$ 0.32 | \$ (0.21) |

The computation of diluted Net income (loss) per share excludes the effects of stock options, RSUs, ESPP shares, and equity awards with a market condition or performance condition that are antidilutive, aggregating approximately the following number of shares:

| | Year Ended | | |
|--|--------------------|----------------------|----------------------|
| | January 2, 2021 | December 28, 2019 | December 29, 2018 |
| (In thousands) | | | |
| Stock options, RSUs, ESPP shares, and equity awards with a market condition or performance condition excluded as they are antidilutive | 316 | 890 | 7,567 |

Note 3 - Revenue from Contracts with Customers

Disaggregation of Revenue

The following tables provide information about revenue from contracts with customers disaggregated by major class of revenue, revenue by channel, and by geographical market, based on ship-to location of the customer:

| Major Class of Revenue | Year Ended | | | | | |
|------------------------|--------------------|------|----------------------|------|----------------------|------|
| | January 2, 2021 | | December 28, 2019 | | December 29, 2018 | |
| (In thousands) | | | | | | |
| Product | \$ 388,502 | 95% | \$ 382,548 | 95% | \$ 380,468 | 95% |
| Licensing and services | 19,618 | 5% | 21,545 | 5% | 18,331 | 5% |
| Total revenue | \$ 408,120 | 100% | \$ 404,093 | 100% | \$ 398,799 | 100% |

| Revenue by Channel | Year Ended | | | | | |
|--------------------------------|--------------------|------|----------------------|------|----------------------|------|
| | January 2, 2021 | | December 28, 2019 | | December 29, 2018 | |
| (In thousands) | | | | | | |
| Product revenue - Distributors | \$ 339,100 | 83% | \$ 331,941 | 82% | \$ 330,719 | 83% |
| Product revenue - Direct | 49,402 | 12% | 50,607 | 13% | 49,749 | 12% |
| Licensing and services revenue | 19,618 | 5% | 21,545 | 5% | 18,331 | 5% |
| Total revenue | \$ 408,120 | 100% | \$ 404,093 | 100% | \$ 398,799 | 100% |

| Revenue by Geographical Market | Year Ended | | | | | |
|--------------------------------|--------------------|------|----------------------|------|----------------------|------|
| | January 2, 2021 | | December 28, 2019 | | December 29, 2018 | |
| (In thousands) | | | | | | |
| United States | \$ 43,945 | 11% | \$ 44,330 | 11% | \$ 38,585 | 10% |
| Other Americas | 18,192 | 4% | 13,606 | 3% | 16,549 | 4% |
| Americas | 62,137 | 15% | 57,936 | 14% | 55,134 | 14% |
| China | 213,714 | 52% | 206,107 | 51% | 202,983 | 51% |
| Taiwan | 30,972 | 8% | 19,746 | 5% | 16,124 | 4% |
| Japan | 25,435 | 6% | 42,658 | 11% | 44,033 | 11% |
| Other Asia | 35,062 | 9% | 30,254 | 7% | 34,979 | 9% |
| Asia | 305,183 | 75% | 298,765 | 74% | 298,119 | 75% |
| Europe | 40,800 | 10% | 47,392 | 12% | 45,546 | 11% |
| Total revenue | \$ 408,120 | 100% | \$ 404,093 | 100% | \$ 398,799 | 100% |

Contract balances

Our contract assets relate to our rights to consideration for licenses and royalties due to us as a member of the HDMI consortium, with collection dependent on events other than the passage of time, such as collection of licenses and royalties from customers by the HDMI licensing agent. The balance results primarily from the amount of estimated revenue related to HDMI that we have recognized to date, but which has not yet been collected by the agent. Contract assets are recorded in Prepaid expenses and other current assets in our Consolidated Balance Sheets.

The following table summarizes activity during the periods presented:

(In thousands)

| | | |
|---|----|-----------------|
| Contract assets as of December 29, 2018 | \$ | 9,143 |
| Revenues recorded during the period | | 17,356 |
| Transferred to Accounts receivable or collected | | <u>(20,930)</u> |
| Contract assets as of December 28, 2019 | \$ | 5,569 |
| Revenues recorded during the period | | 15,860 |
| Transferred to Accounts receivable or collected | | <u>(15,818)</u> |
| Contract assets as of January 2, 2021 | \$ | <u>5,611</u> |

Contract liabilities are included in Accrued expenses on our Consolidated Balance Sheets. The following table summarizes activity during the periods presented:

(In thousands)

| | | |
|---|----|----------------|
| Contract liabilities as of December 29, 2018 | \$ | 1,614 |
| Accruals for estimated future stock rotation and scrap returns | | 5,763 |
| Less: Release of accruals for recognized stock rotation and scrap returns | | <u>(5,064)</u> |
| Contract liabilities as of December 28, 2019 | \$ | 2,313 |
| Accruals for estimated future stock rotation and scrap returns | | 5,976 |
| Less: Release of accruals for recognized stock rotation and scrap returns | | <u>(5,221)</u> |
| Contract liabilities as of January 2, 2021 | \$ | <u>3,068</u> |

The impact to revenue in fiscal years 2020 and 2019 from the release of accruals for recognized stock rotation and scrap returns was offset by the processing of return merchandise authorizations totaling \$6.1 million and \$5.0 million, respectively, yielding a net revenue decrease of approximately \$0.9 million and a net revenue increase of approximately \$0.1 million, respectively.

Note 4 - Balance Sheet Components

Accounts Receivable

Accounts receivable do not bear interest and are shown net of an allowance for expected lifetime credit losses, which reflects our best estimate of probable losses inherent in the accounts receivable balance. We determine this allowance through an assessment of known troubled accounts, analysis of our accounts receivable aging, historical experience, expectations for future economic conditions, management judgment, and other available evidence.

| <i>(In thousands)</i> | January 2, 2021 | December 28, 2019 |
|---|----------------------------|------------------------------|
| Accounts receivable | \$ 64,635 | \$ 65,023 |
| Less: Allowance for credit losses | (54) | (106) |
| Accounts receivable, net of allowance for credit losses | <u>\$ 64,581</u> | <u>\$ 64,917</u> |

We had no material bad debt expense in fiscal 2020, 2019, or 2018.

Inventories

| <i>(In thousands)</i> | January 2, 2021 | December 28, 2019 |
|------------------------|----------------------------|------------------------------|
| Work in progress | \$ 34,724 | \$ 39,855 |
| Finished goods | 29,875 | 15,125 |
| Total inventories, net | <u>\$ 64,599</u> | <u>\$ 54,980</u> |

Accrued Expenses

Included in Accrued expenses in the Consolidated Balance Sheets are the following balances:

| <i>(In thousands)</i> | January 2, 2021 | December 28, 2019 |
|--|--------------------|----------------------|
| Liability for non-cancelable contracts | \$ 8,492 | \$ 6,964 |
| Current portion of operating lease liabilities | 4,149 | 4,686 |
| Other accrued expenses | 8,770 | 8,941 |
| Total accrued expenses | <u>\$ 21,411</u> | <u>\$ 20,591</u> |

Cloud Based Computing Implementation Costs

Under the guidance in ASU 2018-15, *Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40)*, we are capitalizing the implementation costs for cloud computing arrangements, mainly for our integrated distributor accounting management systems. These cloud-based computing implementation costs are recorded in Prepaid expenses and other current assets and Other long-term assets on our Consolidated Balance Sheets. The following table summarizes activity during fiscal 2020:

| <i>(In thousands)</i> | December 28, 2019 |
|---|------------------------|
| Cloud based computing implementation costs as of December 28, 2019 | \$ 2,543 |
| Costs capitalized | 983 |
| Amortization | (695) |
| Cloud based computing implementation costs as of January 2, 2021 | <u>\$ 2,831</u> |

Note 5 - Property and Equipment

| <i>(In thousands)</i> | January 2, 2021 | December 28, 2019 |
|---|--------------------|----------------------|
| Production equipment and software | \$ 135,774 | \$ 150,591 |
| Leasehold improvements | 12,913 | 12,517 |
| Office furniture and equipment | 2,161 | 2,112 |
| | 150,848 | 165,220 |
| Accumulated depreciation and amortization | (111,182) | (125,990) |
| | <u>\$ 39,666</u> | <u>\$ 39,230</u> |

For fiscal year 2020, depreciation and amortization expense for property and equipment was \$11.8 million. For fiscal year 2019, depreciation and amortization expense for property and equipment was \$11.6 million, including \$0.4 million of restructuring expense. For fiscal year 2018, depreciation and amortization expense for property and equipment was \$13.4 million, including \$0.6 million of restructuring expense.

Property and Equipment – Geographic Information

Our Property and equipment, net by country at the end of each period was as follows:

| <i>(In thousands)</i> | January 2, 2021 | December 28, 2019 |
|---|--------------------|----------------------|
| United States | \$ 29,440 | \$ 32,313 |
| China | 1,537 | 1,683 |
| Philippines | 2,912 | 2,683 |
| Taiwan | 5,171 | 1,885 |
| Japan | 476 | 283 |
| Other | 130 | 383 |
| Total foreign property and equipment, net | 10,226 | 6,917 |
| Total property and equipment, net | <u>\$ 39,666</u> | <u>\$ 39,230</u> |

Note 6 - Long-Term Debt

On May 17, 2019, we entered into a credit agreement (the "Current Credit Agreement"), which provides for a five-year secured term loan facility in an aggregate principal amount of \$175.0 million and a five-year secured revolving loan facility in an aggregate principal amount of up to \$75.0 million, along with other components and options, such as a letter of credit, swing line, or expansion of the revolver, currently not in use, which are described in the Current Credit Agreement.

We used the \$175.0 million term loan proceeds and an initial \$31.5 million revolving loan draw at closing to (i) repay the \$204.4 million obligation outstanding under our previous credit agreement (the "Previous Credit Agreement"), and (ii) pay fees and expenses totaling \$2.1 million incurred in connection with the Current Credit Agreement. The revolving loan may be used for working capital and general corporate purposes. With the repayment of our obligations under the Previous Credit Agreement, we wrote off the remaining unamortized balance of the related original issue discount and debt costs, which we recorded as a \$2.2 million loss on refinancing in Other expense, net on our Consolidated Statements of Operations in fiscal 2019.

At our option, the term loan and the revolving loan (collectively, "long-term debt") accrue interest at a per annum rate based on either (i) the base rate plus a margin ranging from 0.25% to 1.00%, determined based on our total leverage ratio or (ii) the London Interbank Offered Rate ("LIBOR") for interest periods of 1, 2, 3 or 6 months plus a margin ranging from 1.25% to 2.00%, determined based on our total leverage ratio. The base rate is defined as the highest of (i) the federal funds rate, plus 0.50%, (ii) Wells Fargo Bank, National Association's prime rate or (iii) the LIBOR rate for a 1-month interest period plus 1.00%. As of January 2, 2021, the effective interest rate on the term loan was 1.61%, and the effective interest rate on the revolving loan was 1.40%. We pay a commitment fee of 0.20% on the unused portion of the revolving loan.

The term loan is payable through a combination of (i) required quarterly installments of approximately \$4.4 million, and (ii) any payments due upon certain issuances of additional indebtedness and certain asset dispositions, with any remaining outstanding principal amount due and payable on the maturity date of the term loan. The revolving loan is payable at our discretion, with any remaining outstanding principal amount due and payable on the maturity date of the revolving loan.

The Current Credit Agreement contains customary affirmative and negative covenants, including covenants limiting the ability of the Company to, among other things, incur debt, grant liens, undergo certain fundamental changes, make investments, make certain restricted payments, dispose of assets, enter into transactions with affiliates, and enter into burdensome agreements, in each case, subject to limitations and exceptions set forth in the Current Credit Agreement. We are also required to maintain compliance with a total leverage ratio and an interest coverage ratio, in each case, determined in accordance with the terms of the Current Credit Agreement.

We account for the original issue discount and the debt issuance costs as a reduction to the carrying value of our long-term debt on our Consolidated Balance Sheets. We amortize the discount and costs to Interest expense in our Consolidated Statements of Operations over the contractual term using the effective interest method. We determine the Current portion of long-term debt as the sum of the required quarterly installments to be made over the next twelve months, reduced by the original issue discount and the debt issuance costs to be amortized over the next twelve months.

During fiscal 2020, we made principal payments totaling \$26.3 million, including \$13.1 million in accelerated principal payments made during the second quarter of fiscal 2020 that fulfilled the required quarterly installments through the first quarter of fiscal 2021. We drew \$50.0 million on our revolving loan facility during the first quarter of fiscal 2020. The fair value of our long-term debt approximates the carrying value, which is reflected in our Consolidated Balance Sheets as follows:

| <i>(In thousands)</i> | January 2, 2021 | December 28, 2019 |
|---|----------------------------|------------------------------|
| Principal amount | \$ 171,875 | \$ 148,125 |
| Unamortized original issuance discount and debt costs | (1,179) | (1,579) |
| Less: Current portion of long-term debt | (12,762) | (21,474) |
| Long-term debt, net of current portion and unamortized debt issue costs | <u>\$ 157,934</u> | <u>\$ 125,072</u> |

Interest expense related to our long-term debt is included in Interest expense on our Consolidated Statements of Operations as follows:

| <i>(In thousands)</i> | Year Ended | | |
|---|----------------------------|------------------------------|------------------------------|
| | January 2, 2021 | December 28, 2019 | December 29, 2018 |
| Contractual interest | \$ 3,319 | \$ 10,278 | \$ 18,600 |
| Amortization of original issuance discount and debt costs | 400 | 1,659 | 2,230 |
| Total interest expense related to long-term debt | <u>\$ 3,719</u> | <u>\$ 11,937</u> | <u>\$ 20,830</u> |

Expected future principal payments are based on the schedule of required quarterly installments. With the accelerated principal payments we made during the second quarter of fiscal 2020, our next required quarterly installment is due in the second quarter of fiscal 2021. As of January 2, 2021, expected future principal payments on our long-term debt were as follows:

| Fiscal year | <i>(in thousands)</i> |
|--------------------|-----------------------|
| 2021 | \$ 13,125 |
| 2022 | 17,500 |
| 2023 | 17,500 |
| 2024 | 123,750 |
| | <u>\$ 171,875</u> |

Note 7 - Restructuring

In March 2020, our management approved and executed an internal restructuring plan (the "Q1 2020 Plan"), which included a workforce reduction in order to reduce our operating cost structure by leveraging our low-cost regions as well as enhancing efficiency. Under this plan, we incurred restructuring expense of approximately \$2.0 million during fiscal 2020. Substantially all actions planned under this plan have been implemented.

In April 2019, our management approved and executed an internal restructuring plan (the "Q2 2019 Sales Plan"), which focused on a restructuring of the global sales organization through cancellation of certain contracts and a workforce reduction. Under this plan, we incurred restructuring expense of approximately \$0.1 million and \$2.0 million, respectively, during fiscal 2020 and 2019. Approximately \$2.1 million of total expense has been incurred through January 2, 2021 under the Q2 2019 Sales Plan. All actions planned under this plan have been implemented.

In December 2018, our management approved and executed an internal restructuring plan (the "December 2018 Plan"), which included a global workforce reduction. This plan also included the abandonment of long-lived assets related to the restructuring of our agreements with a privately-held investee. Under this plan, no restructuring expense was incurred during either fiscal 2020 or 2019, and approximately \$4.8 million of restructuring expense was incurred during fiscal 2018. Approximately \$4.8 million of total expense has been incurred through January 2, 2021 under the December 2018 Plan. All actions planned under this plan have been implemented.

In June 2018, our Board of Directors approved an internal restructuring plan (the "June 2018 Plan"), which included the discontinuation of our millimeter wave business and the use of certain assets related to our Wireless products, and a workforce reduction. Under this plan, no restructuring expense was incurred during fiscal 2020. We recorded a total credit adjustment of approximately \$0.1 million during fiscal 2019 due to the final reconciliation of expenses incurred, and we incurred approximately \$4.2 million of restructuring expense during fiscal 2018. Approximately \$4.1 million of total expense has been incurred through January 2, 2021 under the June 2018 Plan. All actions planned under this plan have been implemented.

In June 2017, our Board of Directors approved an internal restructuring plan (the "June 2017 Plan"), which included the sale of 100% of the equity of our Hyderabad, India subsidiary and the transfer of certain assets related to our Simplay Labs testing and certification business, a worldwide workforce reduction, and an initiative to reduce our infrastructure costs, including reconfiguring our use of certain leased properties. Under this plan, we incurred restructuring expense of approximately \$1.9 million, \$2.7 million, and \$8.4 million, respectively, during fiscal 2020, 2019, and 2018. Approximately \$21.0 million of total expense has been incurred through January 2, 2021 under the June 2017 Plan, and all planned actions have been implemented. We expect the total cost of the June 2017 Plan to be approximately \$21.5 million to \$23.5 million as ROU asset amortization expenses related to our partially vacated facility in San Jose, California will be incurred over the remaining lease term.

These expenses and credits were recorded to Restructuring charges on our Consolidated Statements of Operations. The restructuring accrual balance is presented in Accrued expenses and Other long-term liabilities on our Consolidated Balance Sheets.

The following table displays the activity related to the restructuring plans described above:

| <i>(In thousands)</i> | Severance & Related (1) | Lease Termination & Fixed Assets | Software Contracts & Engineering Tools (2) | Other (3) | Total |
|---|--|---|---|------------------|-----------------|
| Accrued Restructuring at December 30, 2017 | \$ 1,192 | \$ 870 | \$ 360 | \$ 25 | \$ 2,447 |
| Restructuring charges | 5,696 | 7,379 | 913 | 3,361 | 17,349 |
| Costs paid or otherwise settled | (5,074) | 381 | (1,055) | (3,368) | (9,116) |
| Accrued Restructuring at December 29, 2018 | \$ 1,814 | \$ 8,630 | \$ 218 | \$ 18 | \$ 10,680 |
| Restructuring charges | 625 | 2,716 | — | 1,323 | 4,664 |
| Costs paid or otherwise settled | (2,279) | (4,761) | (218) | (476) | (7,734) |
| Accrued Restructuring at December 28, 2019 | \$ 160 | \$ 6,585 | \$ - | \$ 865 | \$ 7,610 |
| Restructuring charges | 1,669 | 1,896 | — | 372 | 3,937 |
| Costs paid or otherwise settled | (1,583) | (248) | — | (573) | (2,404) |
| Accrued Restructuring at January 2, 2021 | <u>\$ 246</u> | <u>\$ 8,233</u> | <u>\$ -</u> | <u>\$ 664</u> | <u>\$ 9,143</u> |

(1) Includes employee relocation costs and outplacement costs, and accelerated stock compensation

(2) Includes cancellation of contracts, asset impairments, and accelerated depreciation on certain enterprise resource planning and customer relationship management systems

(3) In fiscal 2018, "Other" includes the abandonment of long-lived assets related to the restructuring of our agreements with a privately-held investee. In fiscal 2019 and 2020, "Other" included termination fees on the cancellation of certain contracts under the Q2 2019 Sales Plan

Note 8 - Leases

Our facilities for corporate offices, sales offices, research and development facilities, storage facilities, and a data center, are all leased under operating leases, which expire at various times through 2027. Our leases have remaining lease terms of 1 to 8 years, some of which include options to extend for up to 5 years, and some of which include options to terminate within 1 year. The weighted-average remaining lease term was 4.6 years and the weighted-average discount rate is 6.5% as of January 2, 2021. We recorded fixed operating lease expense of \$7.6 million and \$7.7 million, respectively, for fiscal 2020 and 2019. Rental expense under the previous guidance for operating leases was \$8.3 million for fiscal 2018.

The following table presents the lease balance classifications within the Consolidated Balance Sheets and summarizes their activity during fiscal 2020:

| | <i>(in thousands)</i> |
|---|-----------------------|
| Operating lease right-of-use assets | |
| Balance as of December 28, 2019 | \$ 23,591 |
| Right-of-use assets obtained for new and modified lease contracts during the period | 4,297 |
| Amortization of right-of-use assets during the period | (5,960) |
| Adjustments for present value and foreign currency effects | 250 |
| Balance as of January 2, 2021 | <u>\$ 22,178</u> |
| Operating lease liabilities | |
| Balance as of December 28, 2019 | \$ 26,124 |
| Lease liabilities incurred for new lease contracts during the period | 2,646 |
| Accretion of lease liabilities | 1,629 |
| Operating cash used by payments on lease liabilities | (7,713) |
| Adjustments for present value and foreign currency effects | 369 |
| Balance as of January 2, 2021 | 23,055 |
| Less: Current portion of operating lease liabilities (included in Accrued expenses) | (4,149) |
| Long-term operating lease liabilities, net of current portion | <u>\$ 18,906</u> |

Lease obligations for facilities restructured prior to the adoption of Topic 842 totaled approximately \$8.2 million at January 2, 2021 and continued to be recorded in Other long-term liabilities on our Consolidated Balance Sheets.

Maturities of operating lease liabilities as of January 2, 2021 are as follows:

| Fiscal year | <i>(in thousands)</i> | |
|------------------------------------|-----------------------|---------------|
| 2021 | \$ | 5,615 |
| 2022 | | 5,378 |
| 2023 | | 5,057 |
| 2024 | | 4,861 |
| 2025 | | 3,552 |
| Thereafter | | 3,229 |
| Total lease payments | | 27,692 |
| Less: amount representing interest | | (4,637) |
| Total lease liabilities | \$ | <u>23,055</u> |

Note 9 - Intangible Assets

In connection with our acquisitions of Silicon Image, Inc. in March 2015 and SiliconBlue Technologies, Inc. in December 2011, we recorded identifiable intangible assets related to developed technology, customer relationships, licensed technology, patents, and in-process research and development based on guidance for determining fair value under the provisions of ASC 820, "Fair Value Measurements." We are amortizing the intangible assets using the straight-line method over their estimated useful lives. Additionally, we have entered into license agreements for third-party technology and recorded them as intangible assets. These licenses are being amortized to Research and development expense over their estimated useful lives.

The following tables summarize the details of our Intangible assets, net as of January 2, 2021 and December 28, 2019:

| <i>(In thousands)</i> | January 2, 2021 | | | |
|------------------------------------|---|-------------------|-----------------------------|---------------------------|
| | Weighted Average Amortization Period (in years) | Gross | Accumulated Amortization | Intangible assets, net |
| | | | \$ | \$ |
| Developed technology | 5.0 | 110,987 | (109,162) | 1,825 |
| Customer relationships | 5.8 | 22,934 | (22,281) | 653 |
| Licensed technology | 6.6 | 4,376 | (533) | 3,843 |
| Total identified intangible assets | | <u>\$ 138,297</u> | <u>\$ (131,976)</u> | <u>\$ 6,321</u> |

| <i>(In thousands)</i> | December 28, 2019 | | | |
|------------------------------------|---|-------------------|-----------------------------|---------------------------|
| | Weighted Average Amortization Period (in years) | Gross | Accumulated Amortization | Intangible assets, net |
| | | | \$ | \$ |
| Developed technology | 5.0 | 110,987 | (105,594) | 5,393 |
| Customer relationships | 5.8 | 22,934 | (21,400) | 1,534 |
| Licensed technology | 5.0 | 459 | (409) | 50 |
| Total identified intangible assets | | <u>\$ 134,380</u> | <u>\$ (127,403)</u> | <u>\$ 6,977</u> |

We recorded amortization expense related to intangible assets on the Consolidated Statements of Operations as presented in the following table:

| <i>(In thousands)</i> | Year Ended | | |
|--|--------------------|----------------------|----------------------|
| | January 2, 2021 | December 28, 2019 | December 29, 2018 |
| | | \$ | \$ |
| Research and development | 124 | 55 | 277 |
| Amortization of acquired intangible assets | 4,449 | 13,558 | 17,690 |
| | <u>\$ 4,573</u> | <u>\$ 13,613</u> | <u>\$ 17,967</u> |

The annual expected amortization expense of acquired intangible assets is as follows:

| Fiscal year | <i>(in thousands)</i> | |
|-------------|-----------------------|--------------|
| 2021 | \$ | 2,877 |
| 2022 | | 876 |
| 2023 | | 600 |
| 2024 | | 501 |
| 2025 | | 501 |
| Thereafter | | 966 |
| Total | \$ | <u>6,321</u> |

No impairment charges relating to acquired intangible assets were recorded for either fiscal 2020 or 2019, as no indicators of impairment were present. During fiscal 2018, we recorded an impairment charge of \$11.9 million relating to intangible assets as a result of the strategic decision to discontinue our millimeter wave business, and we recorded an impairment charge of \$0.6 million to an intangible asset associated with a certain product line that we concluded had limited future revenue potential due to a decline in customer demand for that product. These charges were recorded to Impairment of acquired intangible assets in the Consolidated Statements of Operations.

Note 10 - Stock-Based Compensation Plans

Employee and Director Stock Options, Restricted Stock, and ESPP Plans

We have two active equity incentive plans, the "2013 Incentive Plan and the "2011 Non-Employee Director Equity Incentive Plan", under which shares remain available for grants to employees and non-employee directors, respectively. In addition, we have made grants of inducement awards to certain executives and employees that are granted outside of, but governed by, the 2013 Incentive Plan. "Incentive stock options" under Section 422 of the U.S. Internal Revenue Code and restricted stock unit ("RSU") grants are part of our equity compensation practices for employees who receive equity grants. Options and RSUs generally vest quarterly over a four-year period beginning on the grant date. The contractual terms of options granted do not exceed ten years.

In May 2012, the Company's stockholders approved the 2012 Employee Stock Purchase Plan ("2012 ESPP"), which authorizes the issuance of 3.0 million shares of common stock to eligible employees to purchase shares of common stock through payroll deductions, which cannot exceed 10% of an employee's compensation. The purchase price of the shares is the lower of 85% of the fair market value of the stock at the beginning of each six-month offering period or 85% of the fair market value at the end of such period. We have treated the 2012 ESPP as a compensatory plan. At January 2, 2021, a total of 1.2 million shares of our common stock were available for future purchases under the 2012 ESPP.

At January 2, 2021, a total of 11.6 million shares of our common stock were available for future grants under the 2013 Incentive Plan, and the 2011 Non-Employee Director Equity Incentive Plan. Following our 2018 Shareholder meeting, a share ratio of 2.2:1 was applied to the 2013 Incentive Plan. This ratio takes two and two-tenths shares out of the 2013 Plan for every one full value share granted. During fiscal 2020, a total of 2.0 million shares were adjusted out of the 2013 Plan. Shares subject to stock option grants that expire or are canceled, without delivery of such shares, generally become available for re-issuance under equity incentive plans.

Stock-Based Compensation Expense

Total stock-based compensation expense included in our Consolidated Statements of Operations is presented in the following table:

| <i>(In thousands)</i> | Year Ended | | |
|--------------------------------------|--------------------|----------------------|----------------------|
| | January 2, 2021 | December 28, 2019 | December 29, 2018 |
| Cost of revenue | \$ 3,179 | \$ 1,422 | \$ 940 |
| Research and development | 10,124 | 5,640 | 4,357 |
| Selling, general, and administrative | 27,069 | 11,837 | 8,349 |
| Total stock-based compensation | <u>\$ 40,372</u> | <u>\$ 18,899</u> | <u>\$ 13,646</u> |

The stock-based compensation expense included in Selling, general, and administrative expense for fiscal 2018 includes approximately \$1.4 million of additional one-time expense for acceleration of stock compensation under the CEO separation agreement executed with our former CEO during the first quarter of fiscal 2018.

Stock Options and ESPP

The fair values of each option award on the date of grant and of the shares expected to be issued under the employee stock purchase plan were estimated using the Black-Scholes valuation model and the assumptions noted in the following table. The expected term is based on historical vested option exercises and includes an estimate of the expected term for options that are fully vested and outstanding. The expected volatility of both stock options and ESPP shares is based on the daily historical volatility of our stock price, measured over the expected term of the option or the ESPP purchase period. The risk-free interest rate is based on the implied yield on a U.S. Treasury zero-coupon issue with a remaining term closest to the expected term of the option. Dividend yield has no valuation impact, as we have not paid any cash dividends since inception and do not intend to pay any cash dividends in the foreseeable future.

The following table summarizes the assumptions used in the valuation of stock option and ESPP compensation:

| | Year Ended | | |
|--|-----------------|-------------------|-------------------|
| | January 2, 2021 | December 28, 2019 | December 29, 2018 |
| Employee and Director Stock Options * | | | |
| Expected volatility | n/a | n/a | 39.87% to 41.11% |
| Risk-free interest rate | n/a | n/a | 2.29% to 2.78% |
| Expected term (years) | n/a | n/a | 4.08 to 4.25 |
| Employee Stock Purchase Plan | | | |
| Weighted average expected volatility | 48.2% | 31.6% | 36.4% |
| Weighted average risk-free interest rate | 0.89% | 2.51% | 1.61% |
| Expected term (in months) | 6 | 6 | 6 |

* No stock options granted during fiscal 2020 or 2019

At January 2, 2021, there was \$1.0 million of total unrecognized compensation cost related to unvested employee and director stock options, which is expected to be recognized over a weighted average period of 0.7 years. Our current practice is to issue new shares to satisfy option exercises. Compensation expense for all stock-based compensation awards is recognized using the straight-line method. In fiscal 2020, 2019, and 2018, we recorded stock compensation expense of approximately \$2.0 million, \$2.4 million, and \$4.1 million, respectively, related to stock options and approximately \$1.0 million, \$0.5 million, and \$0.6 million, respectively, related to the ESPP.

The following table summarizes our stock option activity and related information for the year ended January 2, 2021:

| | Shares | Weighted average exercise price | Weighted average remaining contractual term (years) | Aggregate Intrinsic Value |
|--|---------|---------------------------------|---|---------------------------|
| <i>(Shares and aggregate intrinsic value in thousands)</i> | | | | |
| Balance, December 28, 2019 | 3,332 | \$ 6.16 | | |
| Granted | — | — | | |
| Exercised | (1,057) | 5.70 | | |
| Forfeited or expired | (75) | 5.69 | | |
| Balance, January 2, 2021 | 2,200 | \$ 6.39 | | |
| Vested and expected to vest at January 2, 2021 | 2,200 | \$ 6.39 | 3.86 | \$ 86,739 |
| Exercisable, January 2, 2021 | 1,589 | \$ 6.40 | 3.66 | \$ 62,661 |

The aggregate intrinsic value in the table above represents the total pretax intrinsic value (the difference between the Company's closing stock price on the last trading day of the fiscal year and the exercise price, multiplied by the number of in-the-money options) that would have been received by the option holders had all option holders exercised their options on that day. This amount changes based on the fair market value of the Company's stock. Total intrinsic value of options exercised for fiscal 2020, 2019, and 2018 was \$21.5 million, \$17.8 million, and \$6.5 million, respectively.

No stock options were granted during fiscal 2020 or 2019. For fiscal 2018, the grant date weighted-average fair value for stock options granted, calculated using the Black-Scholes option pricing model with the noted assumptions for stock options, was \$2.73. The weighted average fair values for the ESPP, calculated using the Black-Scholes option pricing model with the noted assumptions for the ESPP, were \$6.62, \$1.69, and \$1.50 for fiscal years 2020, 2019, and 2018, respectively.

Time-Based Restricted Stock Unit Awards

The following table summarizes the activity for our time-based RSUs for the year ended January 2, 2021:

| <i>(Shares in thousands)</i> | Shares | Weighted average grant date fair value |
|------------------------------|--------------|--|
| Balance, December 28, 2019 | 3,611 | \$ 11.50 |
| Granted | 984 | 26.48 |
| Vested | (1,424) | 10.72 |
| Forfeited or expired | (173) | 12.03 |
| Balance, January 2, 2021 | <u>2,998</u> | <u>\$ 16.76</u> |

At January 2, 2021, there was \$44.3 million of unrecognized compensation expense related to unvested time-based RSUs. Our current practice is to issue new shares when RSUs vest. Compensation expense for RSUs is recognized using the straight-line method over the related vesting period. In fiscal 2020, 2019, and 2018, we recorded stock compensation expense related to time-based RSUs of approximately \$16.6 million, \$10.3 million, and \$8.0 million, respectively.

Market-Based and Performance-Based Awards

In 2018 through 2020, we granted awards of RSUs with either a market condition or a performance condition to certain executives.

In the first quarter of fiscal 2020, we granted awards of RSUs with a market condition to certain executives. Under the terms of these grants, the RSUs with a market condition vest and become payable over a three-year period based on the Company's total shareholder return ("TSR") relative to the Russell 2000 index, which condition is tested for one-half of the grants on the second and third anniversary of the grant date. The awards may vest at 250% or 200%, depending upon the executive, if the 75th percentile of the market condition is achieved, with 100% of the units vesting at the 55th percentile, zero vesting if relative TSR is below the 25th percentile, and vesting scaling for achievement between the 25th and 75th percentile.

In fiscal years 2018 and 2019, we granted inducement awards outside of, but subject to the terms and conditions of the 2013 Incentive Plan to certain executives. These awards consisted of RSUs with either a market condition or a performance condition that vest and become payable upon achievement of TSR or Adjusted EBITDA targets, respectively. These TSR-based awards vest and become payable over a three-year period based on the Company's TSR relative to the PHLX Semiconductor Sector Index, with either 250% or 200% of the units vesting at the 75th percentile, depending upon the executive, 100% of the units vesting at the 50th percentile and zero vesting if relative TSR is below the 25th percentile, and vesting scaling linearly for achievement between the 25th and 75th percentile. The Adjusted EBITDA-based awards will vest and become payable based upon the Company's generating specified "adjusted" EBITDA levels on a trailing four quarter basis in any two consecutive trailing four-quarter periods. During the first quarter of fiscal 2020, the Board of Directors approved a modification to the market condition measurement periods associated with the unvested portions of certain of the Company's awards with a market condition that were granted prior to fiscal 2020. The modification extended the duration of the measurement period by adjusting the beginning date of each measurement period to the original grant date, resulting in approximately \$1.8 million additional stock compensation expense during the first quarter of fiscal 2020.

During the first quarter of fiscal 2020, the market condition for awards granted to certain executives in the first quarter of fiscal 2019 exceeded the 75th percentile of the condition, and the first tranche of these awards vested at 200%. During the second quarter of fiscal 2020, the first tranche of 33.3% of the base number of the awards with an EBITDA performance condition vested, as the Company had generated the specified "adjusted" EBITDA levels on a trailing four quarter basis for two consecutive trailing four-quarter periods as of the end of the first quarter of fiscal 2020. During the third and fourth quarters of fiscal 2020, the market condition for awards granted in previous years exceeded the 75th percentile of the condition, and one-third of these awards vested at 250% or 200%, as applicable for the respective executive.

For our awards with a market condition or a performance condition, we incurred stock compensation expense, including the effect of the modification in the first quarter of fiscal 2020, of approximately \$20.8 million, \$5.7 million, and \$0.9 million in fiscal years 2020, 2019, and 2018, respectively. At January 2, 2021, there was \$14.8 million of unrecognized compensation expense related to unvested RSUs with a market condition or a performance condition.

The following table summarizes the assumptions used at the grant date in the valuation of RSUs with a market or performance condition:

| | Year Ended | | |
|--|-----------------|-------------------|-------------------|
| | January 2, 2021 | December 28, 2019 | December 29, 2018 |
| Executive RSUs with a market condition or performance condition | | | |
| Weighted average expected volatility | 42.38% | 40.15% to 41.10% | 41.06% to 41.74% |
| Weighted average risk-free interest rate | 1.40% | 1.66% to 2.55% | 2.71% to 2.87% |
| Expected term (years) | 3.00 | 3.00 | 3.00 to 3.16 |

The following table summarizes the activity for our awards with a market condition or performance condition:

| <i>(Shares in thousands)</i> | Shares | Weighted average grant date fair value | |
|------------------------------|--------|--|-------|
| | | | |
| Balance, December 28, 2019 | 1,163 | \$ | 14.49 |
| Granted | 349 | | 32.23 |
| Effect of vesting multiplier | 472 | | — |
| Vested | (963) | | 15.63 |
| Canceled | — | | — |
| Balance, January 2, 2021 | 1,021 | \$ | 20.42 |

Note 11 - Common Stock Repurchase Program

On February 14, 2020, our Board of Directors approved a stock repurchase program pursuant to which up to \$40.0 million of outstanding common stock could be repurchased from time to time. The duration of the repurchase program was twelve months. Under this program during the fourth quarter of fiscal 2020, approximately 0.4 million shares were repurchased for \$15.0 million, or an average price paid per share of \$38.98. All repurchased shares were retired by the end of the 2020 fiscal year. All repurchases were open market transactions funded from available working capital. The twelve-month 2020 program expired during the first quarter of fiscal 2021, during which no additional shares were repurchased.

Note 12 - Income Taxes

We are subject to federal and state income tax as well as income tax in the various foreign jurisdictions in which we operate.

The domestic and foreign components of Income (loss) before income taxes were as follows:

| <i>(In thousands)</i> | Year Ended | | |
|----------------------------|-----------------|-------------------|-------------------|
| | January 2, 2021 | December 28, 2019 | December 29, 2018 |
| Domestic | \$ 11,772 | \$ 33,417 | \$ (8,274) |
| Foreign | 36,684 | 11,648 | (15,695) |
| Income (loss) before taxes | \$ 48,456 | \$ 45,065 | \$ (23,969) |

The components of Income tax expense are as follows:

| (In thousands) | Year Ended | | |
|--------------------|-----------------|-------------------|-------------------|
| | January 2, 2021 | December 28, 2019 | December 29, 2018 |
| Current: | | | |
| Federal | \$ 54 | \$ 499 | \$ 536 |
| State | 68 | 45 | 38 |
| Foreign | 1,025 | 1,345 | 1,869 |
| | <u>1,147</u> | <u>1,889</u> | <u>2,443</u> |
| Deferred: | | | |
| Federal | — | — | — |
| State | — | — | — |
| Foreign | (83) | (317) | (90) |
| | <u>(83)</u> | <u>(317)</u> | <u>(90)</u> |
| Income tax expense | <u>\$ 1,064</u> | <u>\$ 1,572</u> | <u>\$ 2,353</u> |

Income tax expense differs from the amount of income tax determined by applying the applicable U.S. statutory federal income tax rate to pretax income as a result of the following differences:

| | Year Ended | | |
|--|-----------------|-------------------|-------------------|
| | January 2, 2021 | December 28, 2019 | December 29, 2018 |
| | % | % | % |
| Statutory federal rate | 21 | 21 | (21) |
| Adjustments for tax effects of: | | | |
| State taxes, net | (4) | 3 | (6) |
| Research and development credits | (3) | 3 | (5) |
| Stock compensation | (23) | (11) | 8 |
| Foreign rate differential | (12) | (2) | 20 |
| Foreign dividends | 15 | — | — |
| Foreign withholding taxes | 3 | 3 | 5 |
| 162(m) executive compensation limitation | 13 | 5 | 2 |
| Other deferred tax asset adjustment | 3 | — | 13 |
| Valuation allowance | (13) | (19) | (11) |
| Change in uncertain tax benefit accrual | 2 | — | 2 |
| Other | — | 1 | 3 |
| Effective income tax rate | <u>2</u> | <u>4</u> | <u>10</u> |

ASC 740, "Income Taxes", provides for the recognition of deferred tax assets if realization of these assets is more-likely-than-not. 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.

Through January 2, 2021, we continued to evaluate the valuation allowance position in the United States and concluded that we should maintain a full valuation allowance against the net federal and state deferred tax assets. In making this evaluation, we exercised significant judgment and considered estimates about our ability to generate revenue and taxable profits sufficient to offset expenditures in future periods within the United States. We will continue to evaluate both positive and negative evidence in future periods to determine if we will realize the net deferred tax assets. We don't have a valuation allowance in any foreign jurisdictions as we have concluded it is more likely than not that we will realize the net deferred tax assets in future periods.

The components of our net deferred tax assets are as follows:

| <i>(In thousands)</i> | January 2, 2021 | December 28, 2019 |
|---------------------------------------|-----------------|-------------------|
| Deferred tax assets: | | |
| Accrued expenses and reserves | \$ 5,464 | \$ 3,527 |
| Stock-based and deferred compensation | 3,851 | 2,812 |
| Lease liability | 4,190 | 4,369 |
| Intangible assets | 10,082 | 12,294 |
| Fixed assets | 351 | 256 |
| Net operating loss carry forwards | 87,443 | 86,899 |
| Tax credit carry forwards | 83,534 | 90,339 |
| Capital loss carry forwards | 4,018 | 4,235 |
| Other | 934 | 1,059 |
| Total deferred tax assets | 199,867 | 205,790 |
| Less: valuation allowance | (192,478) | (198,499) |
| Net deferred tax assets | 7,389 | 7,291 |
| Deferred tax liabilities: | | |
| Fixed assets | 2,809 | 2,620 |
| Unremitted earnings | 1,746 | — |
| Deferred revenue | 64 | 434 |
| Right-of-use asset | 3,939 | 3,759 |
| Total deferred tax liabilities | 8,558 | 6,813 |
| Net deferred taxes | (1,169) | 478 |

The following table displays the activity related to changes in our valuation allowance for deferred tax assets:

| Fiscal Years Ended <i>(in thousands)</i> | Balance at beginning of period | Charged (Credit) to costs and expenses | Charged (credit) to other accounts | Balance at end of period |
|--|---------------------------------------|---|---|---------------------------------|
| January 2, 2021 | \$ 198,499 | \$ (6,021) | \$ — | \$ 192,478 |
| December 28, 2019 | \$ 207,108 | \$ (8,609) | \$ — | \$ 198,499 |
| December 29, 2018 | \$ 209,691 | \$ (2,583) | \$ — | \$ 207,108 |

At January 2, 2021, we had U.S. federal net operating loss ("NOL") carryforwards (pretax) of approximately \$359.5 million that expire at various dates between 2021 and 2037. We had state NOL carryforwards (pretax) of approximately \$147.6 million that expire at various dates from 2021 through 2037. We also had federal and state credit carryforwards of \$51.7 million and \$64.9 million, respectively. Of the \$64.9 million state credit carryforwards, \$64.5 million do not expire. The federal and remaining state credits expire at various dates from 2021 through 2040.

Future utilization of federal and state net operating losses and tax credit carry forwards may be limited if cumulative changes to ownership exceed 50% within any three-year period. If there is a significant change in ownership, future tax attribute utilization may be restricted and an allowance will be recorded against NOL carryforwards and/or R&D credits to reflect the limitation.

Foreign earnings may be subject to withholding taxes in local jurisdictions if they are distributed and repatriated in the United States. At January 2, 2021, U.S. income taxes and foreign withholding taxes were not provided for on a cumulative total of approximately \$3.1 million of the undistributed earnings of our Chinese subsidiary. We intend to reinvest these earnings indefinitely.

At January 2, 2021, our unrecognized tax benefits associated with uncertain tax positions were \$55.7 million, of which \$53.6 million, if recognized, would affect the effective tax rate, subject to valuation allowance. As of January 2, 2021, interest and penalties associated with unrecognized tax benefits were \$9.1 million, which are not reflected in the table below.

The following table summarizes the changes to unrecognized tax benefits for the fiscal years presented:

| | <i>(in thousands)</i> |
|---|-----------------------|
| Balance at December 30, 2017 | \$ 58,377 |
| Additions based on tax positions related to the current year | 389 |
| Additions based on tax positions of prior years | 759 |
| Reduction for tax positions of prior years | (5) |
| Reduction as a result of lapse of applicable statute of limitations | (1,235) |
| Balance at December 29, 2018 | 58,285 |
| Additions based on tax positions related to the current year | 238 |
| Additions based on tax positions of prior years | 1,084 |
| Reductions for tax positions of prior years | (213) |
| Reduction as a result of lapse of applicable statute of limitations | (2,432) |
| Balance at December 28, 2019 | 56,962 |
| Additions based on tax positions related to the current year | 548 |
| Additions based on tax positions of prior years | 628 |
| Reductions for tax positions of prior years | — |
| Reduction as a result of lapse of applicable statute of limitations | (2,401) |
| Balance at January 2, 2021 | \$ 55,737 |

The balance of the unrecognized tax benefit at December 30, 2017 included in the table above summarizing the changes to the unrecognized tax benefit has been updated from \$44,832 thousand to \$58,377 thousand. Additionally, the amounts in this table for Additions based on tax positions of prior years during 2018 and 2019 have been updated from \$19 thousand and \$334 thousand to \$759 thousand and \$1,084 thousand, respectively.

Our liability for uncertain tax positions (including penalties and interest) was \$22.3 million and \$24.6 million at January 2, 2021 and December 28, 2019, respectively, and is recorded as a component of Other long-term liabilities on our Consolidated Balance Sheets. The remainder of our uncertain tax position exposure of \$42.5 million is netted against deferred tax assets.

At January 2, 2021, it is reasonably possible that \$2.7 million of unrecognized tax benefits and \$0.4 million of associated interest and penalties could be recognized during the next twelve months. The \$3.1 million potential change would represent a decrease in unrecognized tax benefits, comprised of items related to tax filings for years that will no longer be subject to examination under expiring statutes of limitations.

The years that remain subject to examination are 2017 for federal income taxes, 2016 for state income taxes, and 2013 for foreign income taxes, including years ending thereafter. However, to the extent allowed by law, the tax authorities may have the right to examine prior periods where net operating losses or tax credits were generated and carried forward, and make adjustments up to the amount of the net operating losses or credit carryforward amount.

Our Philippines 2016 and 2017 and Israeli 2013 through 2017 income tax returns are currently under examination. We are not under examination in any other jurisdiction.

We are not currently paying U.S. federal income taxes and do not expect to pay such taxes until we fully utilize our tax NOL and credit carryforwards. We expect to pay a nominal amount of state income tax. We are paying foreign income and withholding taxes, which are reflected in income tax expense in our Consolidated Statements of Operations and are primarily related to the cost of operating offshore activities and subsidiaries. We accrue interest and penalties related to uncertain tax positions in income tax expense.

In response to the COVID-19 pandemic, the Coronavirus Aid, Relief and Economic Security Act (CARES Act) was signed into law in March 2020. The CARES Act lifts certain deduction limitations originally imposed by the Tax Cuts and Jobs Act of 2017 (2017 Tax Act). The CARES Act eliminates the 80% of taxable income limitations by allowing corporate entities to fully utilize NOL carryforwards to offset taxable income in 2018, 2019 or 2020. Taxpayers may generally deduct interest up to the sum of 50% of adjusted taxable income plus business interest income (30% limit under the 2017 Tax Act) for tax years beginning January 1, 2019 and 2020. The CARES Act makes qualified improvement property generally eligible for 15-year cost-recovery and 100% bonus depreciation. In addition, the CARES Act allows companies to defer making certain payroll tax payments until future years. With the enactment of the CARES Act, the Company does not expect a financial statement impact from income taxes. The Company has not recorded any income tax expense or benefit relate to the Act for the year ended January 2, 2021.

Note 13 - Employee Benefit Plans

Qualified Investment Plan

In 1990, we adopted a 401(k) tax-deferred savings plan, which provides all employees in the United States who meet certain eligibility requirements with an opportunity to accumulate funds for retirement. Participants may contribute up to the amount allowable as a deduction for federal income tax purposes. The plan does not allow investments in the Company's common stock. The plan allows for the Company to make discretionary matching contributions in cash. We recorded matching contributions of approximately \$2.4 million, \$0.8 million, and \$0.6 million in fiscal years 2020, 2019, and 2018, respectively.

Cash Incentive Plans

For 2020, 2019, and 2018, the Board of Directors of the Company, upon the recommendation of the Compensation Committee, approved the Cash Incentive Plan (the "Cash Plans") for the respective fiscal year. The chief executive officer, other executive officers, and other members of senior management, including vice presidents and director-level employees, together with all other employees of the Company not on the Company's sales incentive plan are eligible to participate in the Cash Plans. Under the Cash Plans, individual cash incentive payments for the eligible employees will be based both on Company financial performance, as measured by achievement of operating income (before incentive plan accruals) and revenue goals within specified ranges established by the Compensation Committee, and Company performance, as measured by the achievement of personal management objectives. The Compensation Committee determines the performance of the chief executive officer, the chief financial officer and other participants based on the achievement of the management objectives established by the Compensation Committee during the first quarter of the respective fiscal year. We recorded approximately \$7.9 million, \$5.8 million, and \$5.9 million of expense under the Cash Plans in fiscal 2020, 2019, and 2018, respectively.

Note 14 - Contingencies

Legal Matters

On or about December 19, 2018, Steven A.W. De Jaray, Perienne De Jaray and Darrell R. Oswald (collectively, the "Plaintiffs") commenced an action against the Company and several unnamed defendants in the Multnomah County Circuit Court of the State of Oregon, in connection with the sale of certain products by the Company to the Plaintiffs in or around 2008. The Plaintiffs allege that we violated The Lanham Act, engaged in negligence and fraud by failing to disclose to the Plaintiffs the export-controlled status of the subject parts. The Plaintiffs seek damages of \$138 million, treble damages, and other remedies. In January 2019, we removed the action to the United States District Court for the District of Oregon. At this stage of the proceedings, we do not have an estimate of the likelihood or the amount of any potential exposure to the Company; however, we believe that these claims are without merit and intend to vigorously defend the action.

From time to time, we are exposed to certain asserted and unasserted potential claims. Periodically, we review the status of each significant matter and assess its potential financial exposure. If the potential loss from any claim or legal proceeding is considered probable and a range of possible losses can be estimated, we then accrue a liability for the estimated loss. Legal proceedings are subject to uncertainties, and the outcomes are difficult to predict. Because of such uncertainties, accruals are based only on the best information available at the time. As additional information becomes available, we reassess the potential liability related to pending claims and litigation and may revise estimates.

Note 15 - Quarterly Financial Data (Unaudited)

A summary of the Company's consolidated quarterly results of operations is as follows:

| <i>(In thousands, except per share data)</i> | 2020 | | | | 2019 | | | |
|--|------------|------------|------------|-----------|------------|------------|------------|-----------|
| | Q4 | Q3 | Q2 | Q1 | Q4 | Q3 | Q2 | Q1 |
| Revenue | \$ 107,173 | \$ 103,042 | \$ 100,589 | \$ 97,316 | \$ 100,237 | \$ 103,469 | \$ 102,296 | \$ 98,091 |
| Gross margin | 64,861 | 62,306 | 60,577 | 57,562 | 59,293 | 61,439 | 60,038 | 57,652 |
| Restructuring charges | (241) | 2,692 | 546 | 940 | (55) | 252 | 3,126 | 1,341 |
| Net income | \$ 15,989 | \$ 12,607 | \$ 10,629 | \$ 8,167 | \$ 13,987 | \$ 13,539 | \$ 8,559 | \$ 7,408 |
| Net income per share - basic | \$ 0.12 | \$ 0.09 | \$ 0.08 | \$ 0.06 | \$ 0.10 | \$ 0.10 | \$ 0.06 | \$ 0.06 |
| Net income per share - diluted | \$ 0.11 | \$ 0.09 | \$ 0.08 | \$ 0.06 | \$ 0.10 | \$ 0.10 | \$ 0.06 | \$ 0.05 |

Note 16 - Subsequent Event

Subsequent to January 2, 2021, the Company's Board of Directors approved a stock repurchase program pursuant to which up to \$60.0 million of outstanding common stock may be repurchased from time to time. The duration of the repurchase program is twelve months. All repurchases will be open market transactions and funded from available working capital.

Report of Independent Registered Public Accounting Firm

To the Stockholders and the Board of Directors of Lattice Semiconductor Corporation

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheet of Lattice Semiconductor Corporation (the Company) as of January 2, 2021, the related consolidated statements of operations, comprehensive income (loss), stockholders' equity and cash flows for the year ended January 2, 2021, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at January 2, 2021, and the results of its operations and its cash flows for the year ended January 2, 2021, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of January 2, 2021, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated February 26, 2021 expressed an unqualified opinion thereon.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audit included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective or complex judgments. The communication of the critical audit matter does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Inventory Valuation

Description of the Matter The Company's net inventory totaled \$64.6 million as of January 2, 2021. As explained in "Note 1 - Basis of Presentation and Significant Accounting Policies" within the consolidated financial statements, the Company records inventory at the lower of cost or net realizable value, and writes down inventories to net realizable value if it is obsolete or if quantities are in excess of projected customer demand.

Auditing management's estimates of excess and obsolete inventory was challenging because the estimate is judgmental and considers a number of factors that are affected by market and economic conditions that are outside of the Company's control. In particular, excess and obsolete inventory calculations are sensitive to significant assumptions that relate to projected customer demand for the Company's products.

How We Addressed the Matter in Our Audit We evaluated and tested the design and operating effectiveness of the Company's internal controls over the calculation of excess and obsolete inventory, including the determination of projected customer demand and related application against on-hand inventory.

Our audit procedures included, among others, evaluating the significant assumptions stated above and the underlying data used in management's excess and obsolete inventory assessment. We evaluated inventory levels compared to projected customer demand, historical sales, and specific product considerations. We also assessed the historical accuracy of management's estimates and performed sensitivity analyses to evaluate the changes in inventory valuation that would result from changes in significant assumptions.

/s/ Ernst & Young LLP

We have served as the Company's auditor since 2020.

San Jose, California
February 26, 2021

Report of Independent Registered Public Accounting Firm

To the Stockholders and the Board of Directors of Lattice Semiconductor Corporation

Opinion on Internal Control Over Financial Reporting

We have audited Lattice Semiconductor Corporation's internal control over financial reporting as of January 2, 2021, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, Lattice Semiconductor Corporation (the Company) maintained, in all material respects, effective internal control over financial reporting as of January 2, 2021, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheet of the Company as of January 2, 2021, the related consolidated statements of operations, comprehensive income (loss), stockholders' equity and cash flows for the year ended January 2, 2021, and the related notes and our report dated February 26, 2021 expressed an unqualified opinion thereon.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Ernst & Young LLP

San Jose, California
February 26, 2021

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Report of Independent Registered Public Accounting Firm

To the Stockholders and Board of Directors
Lattice Semiconductor Corporation:

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheet of Lattice Semiconductor Corporation and subsidiaries (the Company) as of December 28, 2019, the related consolidated statements of operations, comprehensive income (loss), stockholders' equity, and cash flows for each of the years in the two-year period ended December 28, 2019 and the related notes (collectively, the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 28, 2019, and the results of its operations and its cash flows for each of the years in the two-year period ended December 28, 2019, in conformity with U.S. generally accepted accounting principles.

Change in Accounting Principle

As discussed in Note 1 to the consolidated financial statements, the Company has changed its method of accounting for leases as of December 30, 2018, due to the adoption of ASC 842, *Leases*, and related amendment ASU 2019-01, *Leases (Topic 842): Codification Improvements*.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ KPMG LLP

We served as the Company's auditor from 2007 to 2020.

Portland, Oregon
February 24, 2020 except for Note 12, as to which the date is February 26, 2021

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Item 9. Changes in and Disagreements with Accountants On Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

In connection with the filing of this Form 10-K, our management, including our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of January 2, 2021. These disclosure controls and procedures are designed to ensure that information required to be disclosed in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms. Our disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that we accumulate and communicate correct information to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls are effective as of January 2, 2021.

Management's Report on Internal Control Over Financial Reporting

The management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) or 15d-15(f) under the Securities Exchange Act of 1934. The Company's internal control over financial reporting is a process designed to provide reasonable assurance regarding reliability of financial reporting and the preparation and fair presentation of published financial statements for external purposes in accordance with generally accepted accounting principles.

Our internal control over financial reporting includes those policies and procedures that:

- (i) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Company;
- (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. GAAP, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and
- (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

We do not expect that our disclosure controls and procedures or our internal control over financial reporting will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met, and may not prevent or detect misstatements. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of a simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people or by management override of the controls. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, controls may become inadequate because of changes in conditions, or the degree of compliance with policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

Management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the Company's internal control over financial reporting as of January 2, 2021. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control - Integrated Framework (2013)*. Based on this assessment, management concluded that, as of January 2, 2021, the Company's internal control over financial reporting was effective.

Ernst & Young LLP, our independent registered public accounting firm, has audited the Company's internal control over financial reporting and has issued its opinion on the effectiveness of the Company's internal control over financial reporting, which appears on page 63 in this Annual Report on Form 10-K.

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Changes in Internal Control over Financial Reporting

There were no changes in our internal controls over financial reporting (as defined in Rules 13a-15(f) under the Exchange Act) that occurred during the fourth quarter of fiscal 2020 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. We do not believe there has been any material impact to our internal controls over financial reporting notwithstanding that most of our employees are working remotely due to the COVID-19 pandemic. We continue to monitor and assess the COVID-19 situation on our internal controls to address any potential impact on their design and operating effectiveness.

Item 9B. Other Information

None.

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PART III

Certain information required by Part III is incorporated by reference from our definitive proxy statement (the "Proxy Statement") for the 2020 Annual Meeting of Stockholders, pursuant to Regulation 14A of the Securities Exchange Act of 1934, as amended, which we will file not later than 120 days after the end of the fiscal year covered by this report. With the exception of the information expressly incorporated by reference from the Proxy Statement, the Proxy Statement is not to be deemed filed as a part of this report.

Item 10. Directors, Executive Officers and Corporate Governance

Information regarding our directors that is required by this item is incorporated by reference from the information contained under the captions "Proposal 1: Election of Directors" and "Corporate Governance and Other Matters--Board Meetings and Committees" in the Proxy Statement. Information regarding our executive officers that is required by this item is incorporated by reference from the information contained under the caption "Executive Compensation--The Executive Officers of the Company" in the Proxy Statement.

Information regarding Section 16(a) reporting compliance that is required by this item is incorporated by reference from the information contained under the caption "Section 16(a) Beneficial Ownership Reporting Compliance" in the Proxy Statement.

We have adopted a Code of Conduct that applies to all of our employees, including our principal executive officer, principal financial officer, principal accounting officer, and persons performing similar functions. The Code of Conduct is posted on our website at www.latticesemi.com. There were no changes to our Code of Conduct during fiscal 2020. Amendments to the Code of Conduct or any grant of a waiver from a provision of the Code of Conduct requiring disclosure under applicable SEC rules, if any, will be disclosed on our website at www.latticesemi.com.

Information about our Corporate Governance Policies, our "Director Code of Ethics" and written committee charters for our Audit Committee, Compensation Committee, and Nominating and Governance Committee are available free of charge on the Company's website at www.latticesemi.com and are available in print to any shareholder upon request.

Information regarding our Audit Committee that is required by this Item is incorporated by reference from the information concerning our Audit Committee contained under the caption "Corporate Governance and Other Matters--Board Meetings and Committees" in the Proxy Statement.

Item 11. Executive Compensation

The information contained under the captions "Executive Compensation," "Director Compensation," "Compensation Committee Interlocks and Insider Participation," and "Compensation Committee Report" in the Proxy Statement is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information contained under the captions "Security Ownership of Certain Beneficial Owners and Management" and "Equity Compensation Plan Information" in the Proxy Statement is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information contained under the captions entitled "Certain Relationships and Related Transactions" and "Corporate Governance and Other Matters--Director Independence" in the Proxy Statement is incorporated herein by reference.

Item 14. Principal Accountant Fees and Services

The information contained under the caption entitled "Proposal 5: Ratification of Appointment of Independent Registered Public Accounting Firm--Audit and Related Fees" in the Proxy Statement is incorporated herein by reference.

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PART IV

Item 15. Exhibits

(a) List of Documents Filed as Part of this Report

(1) All financial statements

The following financial statements are filed as part of this report under Item 8.

| Consolidated Financial Statements: | Page |
|--|--------------------|
| Consolidated Statements of Operations | 36 |
| Consolidated Statements of Comprehensive Income (Loss) | 37 |
| Consolidated Balance Sheets | 38 |
| Consolidated Statements of Cash Flows | 39 |
| Consolidated Statements of Stockholders' Equity | 40 |
| Notes to Consolidated Financial Statements | 41 |

All other schedules have been omitted because the required information is included in the Consolidated Financial Statements or the notes thereto, or is not applicable or required.

(2) Exhibits

| Exhibit Number | Description |
|-----------------------|---|
| 3.1 | The Company's Restated Certificate of Incorporation, as amended on June 4, 2009 (Incorporated by reference to Exhibit 3.1 filed with the Company's Current Report on Form 8-K filed June 4, 2009). |
| 3.2 | The Company's Bylaws, as amended as of November 3, 2016 (Incorporated by reference to Exhibit 3.2 filed with the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2016). |
| 4.1 | Description of Securities (Incorporated by reference to Exhibit 4.1 filed with the Company's Annual Report on Form 10-K for the fiscal year ended December 28, 2019). |

- 10.1* [Form of Indemnification Agreement executed by each director and executive officer of the Company and certain other officers and employees of the Company and its subsidiaries.\(Incorporated by reference to Exhibit 10.41 filed with the Company's Annual Report on Form 10-K for the fiscal year ended January 3, 2004\).](#)
- 10.2* [Form of Notice of Grant of Restricted Stock Units to Executive Officer \(Incorporated by reference to Exhibit 99.1 filed with the Company's Current Report on Form 8-K filed on February 8, 2007\).](#)
- 10.3* [Lattice Semiconductor Corporation 2012 Employee Stock Purchase Plan \(incorporated by reference to Annex 1 to the Company's Definitive Proxy Statement on Schedule 14A for the 2012 Annual Meeting of Stockholders filed on April 12, 2012\).](#)
- 10.4* [Lattice Semiconductor Corporation 2011 Non-Employee Director Equity Incentive Plan. \(Incorporated by reference to Exhibit 99.2 filed with the Company's Registration Statement on Form S-8 filed June 25, 2019\).](#)
- 10.5* [Lattice Semiconductor Corporation 2013 Incentive Plan, as amended and restated.](#)
- 10.6 [Credit Agreement by and among Lattice Semiconductor Corporation, as borrower, the lenders from time to time party thereto and Wells Fargo Bank, National Association, as administrative agent. \(Incorporated by reference to Exhibit 10.1 filed with the Company's Current Report on Form 8-K filed May 20, 2019\).](#)

* Management contract or compensatory plan or arrangement required to be filed as an Exhibit to this Annual Report on Form 10-K pursuant to Item 15(b) thereof.

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| Exhibit Number | Description |
|----------------|--|
| 10.7* | Lattice Semiconductor Corporation 2018 Cash Incentive Plan (Incorporated by reference to Exhibit 10.13 filed with the Company's Annual Report on Form 10-K filed on February 26, 2019). |
| 10.8* | Lattice Semiconductor Corporation 2019 Cash Incentive Plan (incorporated by reference to Exhibit 10.14 filed with the Company's Annual Report on Form 10-K filed on February 24, 2020). |
| 10.9* | Lattice Semiconductor Corporation 2020 Cash Incentive Plan. |
| 10.10* | Amended Employment Agreement, by and between Lattice Semiconductor Corporation and James R. Anderson, effective February 21, 2020. (Incorporated by reference to Exhibit 10.23 of the Company's Annual Report on Form 10-K filed on February 24, 2020). |
| 10.11* | Form of Amended Employment Agreement (Incorporated by reference to Exhibit 10.24 of the Company's Annual Report on Form 10-K filed on February 24, 2020). |
| 10.12* | Employment Agreement between Lattice Semiconductor Corporation and Byron Milstead effective as of December 30, 2008 (Incorporated by reference to Exhibit 10.66 filed with the Company's Annual Report on Form 10-K filed for the fiscal year ended January 3, 2009). |
| 10.13* | Employment Agreement, by and between Lattice Semiconductor Corporation and Stephen Douglass, effective September 4, 2018 (Incorporated by reference to Exhibit 10.2 filed with the Company's Quarterly Report on Form 10-Q filed on October 29, 2018). |
| 10.14* | Employment Agreement, by and between Lattice Semiconductor Corporation and Sherri Luther, effective January 2, 2019 (Incorporated by reference to Exhibit 10.1 filed with the Company's Current Report on Form 8-K filed on January 2, 2019). |
| 10.15* | Employment Agreement, by and between Lattice Semiconductor Corporation and Esam Elashmawi, dated September 24, 2018 (Incorporated by reference to Exhibit 10.20 filed with the Company's Annual Report on Form 10-K filed on February 26, 2019). |
| 10.16 | Credit Agreement among Lattice Semiconductor Corporation, the Subsidiary Guarantors from time to time party thereto, the various Lenders from time to time party thereto, Jefferies Finance LLC as Administrative Agent, Jefferies Finance LLC and HSBC Securities (USA) Inc. as lead arrangers and book runners, Jefferies Finance LLC as syndication agent and HSBC Securities (USA) Inc. and ING Capital LLC as co-documentation agents (Incorporated by reference to Exhibit 10.1 filed with the Company's Current Report on Form 8-K filed March 11, 2015). |
| 10.17 | Office Lease, effective as of October 21, 2014, between 555 SW Oak, LLC and Lattice Semiconductor Corporation (Incorporated by reference to Exhibit 10.1 filed with the Company's Current Report on Form 8-K filed October 27, 2014). |
| 16.1 | Letter from KPMG LLP dated May 8, 2020 (Incorporated by reference to Exhibit 16.1 of the Company's Current Report on Form 8-K filed on May 8, 2020). |
| 21.1 | Subsidiaries of the Registrant. |
| 23.1 | Consent of Independent Registered Public Accounting Firm (Ernst & Young LLP). |
| 23.2 | Consent of Independent Registered Public Accounting Firm (KPMG LLP). |

* Management contract or compensatory plan or arrangement required to be filed as an Exhibit to this Annual Report on Form 10-K pursuant to Item 15(b) thereof.

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| Exhibit Number | Description |
|----------------|--|
| 31.1 | Certification of Chief Executive Officer pursuant to the Securities Exchange Act of 1934 Rule 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |

| | |
|----------------|--|
| 31.2 | Certification of Chief Financial Officer pursuant to the Securities Exchange Act of 1934 Rule 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32.1 | Certification of Chief Executive Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 32.2 | Certification of Chief Financial Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 101.INS | Inline XBRL Instance Document (the Instance Document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document) |
| 101.SCH | Inline XBRL Taxonomy Extension Schema Document |
| 101.CAL | Inline XBRL Taxonomy Extension Calculation Linkbase Document |
| 101.DEF | Inline XBRL Taxonomy Extension Definition Linkbase Document |
| 101.LAB | Inline XBRL Taxonomy Extension Labels Linkbase Document |
| 101.PRE | Inline XBRL Taxonomy Extension Presentation Linkbase Document |
| 104 | Cover Page Interactive Data File - formatted in Inline XBRL and included in Exhibit 101 |

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

LATTICE SEMICONDUCTOR CORPORATION
(Registrant)

By: /s/ Sherri Luther
 Sherri Luther
 Chief Financial Officer
 (Duly Authorized Officer and Principal Financial and Accounting Officer)

Date: February 26, 2021

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints James Anderson and Sherri Luther, or either of them, his or her attorneys-in-fact, each with the power of substitution, for such person in any and all capacities, to sign any amendments to this report and to file the same, with exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, hereby ratifying and confirming all that either of said attorneys-in-fact, or his substitute or substitutes, may do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant in the capacities indicated and on the dates indicated:

| <u>Signature</u> | <u>Title</u> | <u>Date</u> |
|---|--|-------------------|
| Principal Executive Officer | | |
| <u>/s/ James Anderson</u> James Anderson | President, Chief Executive Officer, and Director | February 26, 2021 |
| Principal Financial and Accounting Officer | | |
| <u>/s/ Sherri Luther</u> Sherri Luther | Chief Financial Officer | February 26, 2021 |
| Directors | | |
| <u>/s/ Robin Abrams</u> Robin Abrams | Director | February 26, 2021 |
| <u>/s/ John Bourgoin</u> John Bourgoin | Director | February 26, 2021 |
| <u>/s/ Mark Jensen</u> Mark Jensen | Director | February 26, 2021 |
| <u>/s/ Anjali Joshi</u> Anjali Joshi | Director | February 26, 2021 |
| <u>/s/ James Lederer</u> James Lederer | Director | February 26, 2021 |
| <u>/s/ John Major</u> John Major | Director | February 26, 2021 |
| <u>/s/ Krishna Rangasavee</u> Krishna Rangasayee | Director | February 26, 2021 |
| <u>/s/ Jeff Richardson</u> Jeff Richardson | Director | February 26, 2021 |

LATTICE SEMICONDUCTOR CORPORATION

2013 INCENTIVE PLAN

(as amended May 5, 2020)

SECTION 1. PURPOSE

The purpose of the Lattice Semiconductor Corporation 2013 Incentive Plan is to attract, retain and motivate employees, officers, directors, consultants, agents, advisors and independent contractors of the Company and its Related Companies by providing them the opportunity to acquire a proprietary interest in the Company and to align their interests and efforts to the long-term interests of the Company's stockholders.

SECTION 2. DEFINITIONS

As used in the Plan,

"Acquired Entity" means any entity acquired by the Company or a Related Company or with which the Company or a Related Company merges or combines.

"Award" means any Option, Stock Appreciation Right, Stock Award, Restricted Stock, Stock Unit, Performance Share, Performance Unit, cash-based award or other incentive payable in cash or in shares of Common Stock as may be designated by the Committee from time to time.

"Board" means the Board of Directors of the Company.

"Cause," unless otherwise defined in the instrument evidencing an Award or in a written employment, services or other agreement between the Participant and the Company or a Related Company, means dishonesty, fraud, serious or willful misconduct, unauthorized use or disclosure of confidential information or trade secrets, or conduct prohibited by law (except minor violations), in each case as determined by the Company's chief human resources officer or other person performing that function or, in the case of directors and executive officers, the Compensation Committee, whose determination shall be conclusive and binding.

"Change in Control," unless the Committee determines otherwise with respect to an Award at the time the Award is granted or unless otherwise defined for purposes of an Award in a written employment, services or other agreement between the Participant and the Company or a Related Company, means the occurrence of any of the following events:

(a) an acquisition by any Entity of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of 50% or more of either (1) the number of then outstanding shares of Common Stock (the **"Outstanding Company Common Stock"**) or (2) the combined voting power of the then outstanding voting securities of the Company entitled to vote generally in the election of directors (the **"Outstanding Company Voting Securities"**); provided, however, that the following acquisitions shall not constitute a Change in Control: (i) any acquisition directly from the Company, other than an acquisition by virtue of the exercise of a conversion privilege where the security being so converted was not acquired directly from the Company by the party exercising the conversion privilege, (ii) any acquisition by the Company, (iii) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Company or any Related Company, (iv) an acquisition by any Entity pursuant to a transaction that meets the conditions of clauses (i), (ii) and (iii) set forth in the definition of Company Transaction;

(b) a change in the composition of the Board such that the individuals who, as of the Effective Date, constitute the Board (the **"Incumbent Board"**) cease for any reason to constitute at least a majority of the Board; provided, however, that for purposes of this definition, any individual who becomes a member of the Board subsequent to the Effective Date, whose election, or nomination for election by the Company's stockholders, was approved by a vote of at least a majority of those individuals who are members of the Board and who were also members of the Incumbent Board (or deemed to be such pursuant to this proviso) shall be considered as though such individual were a member of the Incumbent Board; and provided further, however, that any such individual whose initial assumption of office occurs as a result of or in connection with an actual or threatened election contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents by or on behalf of an Entity other than the Board shall not be considered a member of the Incumbent Board; or

(c) consummation of a Company Transaction.

“**Code**” means the United States Internal Revenue Code of 1986, as amended from time to time.

“**Committee**” has the meaning set forth in Section 3.1.

“**Common Stock**” means the common stock, par value \$0.01 per share, of the Company.

“**Company**” means Lattice Semiconductor Corporation, a Delaware corporation.

“**Company Transaction**,” unless the Committee determines otherwise with respect to an Award at the time the Award is granted or unless otherwise defined for purposes of an Award in a written employment, services or other agreement between the Participant and the Company or a Related Company, means consummation of:

(a) a merger or consolidation of the Company with or into any other company;

(b) a sale in one transaction or a series of transactions undertaken with a common purpose of at least 50% of the Company’s outstanding voting securities; or

(c) a sale, lease, exchange or other transfer in one transaction or a series of related transactions undertaken with a common purpose of all or substantially all of the Company’s assets, excluding, however, in each case, a transaction pursuant to which

(i) the Entities who are the beneficial owners of the Outstanding Company Common Stock and Outstanding Company Voting Securities immediately prior to such Company Transaction will beneficially own, directly or indirectly, at least 50% of the outstanding shares of common stock, and the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors, of the Successor Company in substantially the same proportions as their ownership, immediately prior to such Company Transaction, of the Outstanding Company Common Stock and Outstanding Company Voting Securities;

(ii) no Entity (other than the Company, any employee benefit plan (or related trust) of the Company, a Related Company or a Successor Company) will beneficially own, directly or indirectly, 50% or more of, respectively, the outstanding shares of common stock of the Successor Company or the combined voting power of the outstanding voting securities of the Successor Company entitled to vote generally in the election of directors unless such ownership resulted solely from ownership of securities of the Company prior to the Company Transaction; and

(iii) individuals who were members of the Incumbent Board will immediately after the consummation of the Company Transaction constitute at least a majority of the members of the board of directors of the Successor Company.

Where a series of transactions undertaken with a common purpose is deemed to be a Company Transaction, the date of such Company Transaction shall be the date on which the last of such transactions is consummated.

“**Compensation Committee**” means the Compensation Committee of the Board.

“**Covered Employee**” means a “covered employee” as that term is defined for purposes of Section 162(m)(3) of the Code or any successor provision.

“**Disability**,” unless otherwise defined by the Committee for purposes of the Plan in the instrument evidencing an Award or in a written employment, services or other agreement between the Participant and the Company or a Related Company, means a mental or physical impairment of the Participant that is expected to result in death or that has lasted or is expected to last for a continuous period of 12 months or more and that causes the Participant to be unable to perform his or her material duties for the Company or a Related Company and to be engaged in any substantial gainful activity, in each case as determined by the Company’s chief human resources officer or other person performing that function or, in the case of directors and executive officers, the Committee, whose determination shall be conclusive and binding.

“**Effective Date**” has the meaning set forth in Section 19.

“**Eligible Person**” means any person eligible to receive an Award as set forth in Section 5.

“**Entity**” means any individual, entity or group (within the meaning of Section 13(d)(3) or Section 14(d)(2) of the Exchange Act).

“**Exchange Act**” means the Securities Exchange Act of 1934, as amended from time to time.

“**Fair Market Value**” means the closing price for the Common Stock on any given date during regular trading, or if not trading on that date, such price on the last preceding date on which the Common Stock was traded, unless determined otherwise by the Committee using such methods or procedures as it may establish.

“**Grant Date**” means the later of (a) the date on which the Committee completes the corporate action authorizing the grant of an Award or such later date specified by the Committee and (b) the date on which all conditions precedent to an Award have been satisfied, provided that conditions to the exercisability or vesting of Awards shall not defer the Grant Date.

“**Incentive Stock Option**” means an Option granted with the intention that it qualify as an “incentive stock option” as that term is defined for purposes of Section 422 of the Code or any successor provision.

“**Incumbent Board**” has the meaning set forth in the definition of “Change in Control.”

“**Nonqualified Stock Option**” means an Option other than an Incentive Stock Option.

“**Option**” means a right to purchase Common Stock granted under Section 7.

“**Option Expiration Date**” means the last day of the maximum term of an Option.

“**Outstanding Company Common Stock**” has the meaning set forth in the definition of “Change in Control.”

“**Outstanding Company Voting Securities**” has the meaning set forth in the definition of “Change in Control.”

“**Parent Company**” means a company or other entity which as a result of a Company Transaction owns the Company or all or substantially all of the Company’s assets either directly or through one or more subsidiaries.

“**Participant**” means any Eligible Person to whom an Award is granted.

“**Performance Award**” means an Award of Performance Shares or Performance Units granted under Section 11.

“**Performance Criteria**” has the meaning set forth in Section 16.1.

“**Performance Share**” means an Award of units denominated in shares of Common Stock granted under Section 11.1.

“**Performance Unit**” means an Award of units denominated in cash or property other than shares of Common Stock granted under Section 11.2.

“**Plan**” means the Lattice Semiconductor Corporation 2013 Incentive Plan.

“**Prior Plan**” has the meaning set forth in Section 4.1(c).

“**Related Company**” means any entity that is directly or indirectly controlled by, in control of or under common control with the Company, as determined by the Committee in its sole discretion.

“**Restricted Stock**” means an Award of shares of Common Stock granted under Section 10, the rights of ownership of which are subject to restrictions prescribed by the Committee.

“**Restricted Stock Unit**” means a Stock Unit subject to restrictions prescribed by the Committee.

“**Retirement**,” unless otherwise defined in the instrument evidencing the Award or in a written employment, services or other agreement between the Participant and the Company or a Related Company, means “Retirement” as defined for purposes of the Plan by the Committee or the Company’s chief human resources officer or other person performing that function or, if not so defined, means Termination of Service on or after the date the Participant reaches “normal retirement age,” as that term is defined in Section 411(a)(8) of the Code.

“**Section 409A**” means Section 409A of the Code.

“**Securities Act**” means the Securities Act of 1933, as amended from time to time.

“**Stock Appreciation Right**” or “**SAR**” means a right granted under Section 9.1 to receive the excess of the Fair Market Value of a specified number of shares of Common Stock over the grant price.

“**Stock Award**” means an Award of shares of Common Stock granted under Section 10, the rights of ownership of which are not subject to restrictions prescribed by the Committee.

“**Stock Unit**,” including a Restricted Stock Unit, means an Award denominated in units of Common Stock granted under Section 10.

“**Substitute Awards**” means Awards granted or shares of Common Stock issued by the Company in substitution or exchange for awards previously granted by an Acquired Entity.

“**Successor Company**” means the surviving company, the successor company or Parent Company, as applicable, in connection with a Company Transaction.

“**Termination of Service**,” unless the Committee determines otherwise with respect to an Award, means a termination of employment or service relationship with the Company or a Related Company for any reason, whether voluntary or involuntary, including by reason of death, Disability or Retirement. Any question as to whether and when there has been a Termination of Service for the purposes of an Award and the cause of such Termination of Service shall be determined by the Company’s chief human resources officer or other person performing that function or, with respect to directors and executive officers, by the Compensation Committee, whose determination shall be conclusive and binding. Transfer of a Participant’s employment or service relationship between the Company and any Related Company shall not be considered a Termination of Service for purposes of an Award. Unless the Committee determines otherwise, a Termination of Service shall be deemed to occur if the Participant’s employment or service relationship is with an entity that has ceased to be a Related Company. A Participant’s change in status from an employee of the Company or a Related Company to a nonemployee director, consultant, advisor, or independent contractor of the Company or a Related Company, or a change in status from a nonemployee director, consultant, advisor or independent contractor of the Company or a Related Company to an employee of the Company or a Related Company, shall not be considered a Termination of Service.

“**Vesting Commencement Date**” means the Grant Date or such other date selected by the Committee as the date from which an Award begins to vest.

SECTION 3. ADMINISTRATION

3.1 Administration of the Plan

(a) The Plan shall be administered by the Board or the Compensation Committee, which shall be composed of two or more directors, each of whom is a “non-employee director” within the meaning of Rule 16b-3(b)(3) promulgated under the Exchange Act, or any successor definition adopted by the Securities and Exchange Commission, and an “outside director” within the meaning of Section 162(m) of the Code, or any successor provision thereto.

(b) Notwithstanding the foregoing, the Board or Compensation Committee may delegate concurrent responsibility for administering the Plan, including with respect to designated classes of Eligible Persons, to different committees consisting of one or more members of the Board, subject to such limitations as the Board deems appropriate, including limitations with respect to grants of Awards to Participants who are subject to Section 16 of the Exchange Act or pursuant to Section 16 of the Plan. Members of any committee shall serve for such term as the Board may determine, subject to removal by the Board at any time. To the extent consistent with applicable law, the Board or the Compensation Committee may authorize one or more officers of the Company to grant Awards to designated classes of Eligible Persons, within limits specifically prescribed by the Board or the Compensation Committee; provided, however, that no such officer shall have or obtain authority to grant Awards to himself or herself or to any person subject to Section 16 of the Exchange Act.

(c) All references in the Plan to the “**Committee**” shall be, as applicable, to the Board, the Compensation Committee or any other committee or any officer to whom the Board or the Compensation Committee has delegated authority to administer the Plan.

3.2 Administration and Interpretation by Committee

(a) Except for the terms and conditions explicitly set forth in the Plan and to the extent permitted by applicable law, the Committee shall have full power and exclusive authority, subject to such orders or resolutions not inconsistent with the provisions of the Plan as may from time to time be adopted by the Board or a Committee composed of members of the Board, to (i) select the Eligible Persons to whom Awards may from time to time be granted under the Plan; (ii) determine the type or types of Awards to be granted to each Participant under the Plan; (iii) determine the number of shares of Common Stock to be covered by each Award granted under the Plan; (iv) determine the terms and conditions of any Award granted under the Plan; (v) approve the forms of notice or agreement for use under the Plan; (vi) determine whether, to what extent and under what circumstances Awards may be settled in cash, shares of Common Stock or other property or canceled or suspended; (vii) interpret and administer the Plan and any instrument evidencing an Award, notice or agreement executed or entered into under the Plan; (viii) establish such rules, regulations and sub-plans as it shall deem appropriate for the proper administration and operation of the Plan; (ix) delegate ministerial duties to such of the Company's employees as it so determines; and (x) make any other determination and take any other action that the Committee deems necessary or desirable for administration of the Plan.

(b) In no event, however, shall the Committee have the right, without stockholder approval, to (i) lower the exercise or grant price of an Option or SAR after it is granted, except in connection with adjustments provided in Section 15; (ii) cancel an Option or SAR at a time when its exercise or grant price exceeds the Fair Market Value of the underlying stock, in exchange for cash, another option or stock appreciation right, restricted stock, or other equity award; (iii) take any other action that is treated as a repricing under generally accepted accounting principles, or (iv) issue an Option or SAR or amend an outstanding Option or SAR to provide for the grant or issuance of a new Option or SAR on exercise of the original Option or SAR.

(c) The effect on the vesting of an Award of a Company-approved leave of absence or a Participant's reduction in hours of employment or service shall be determined by the Company's chief human resources officer or other person performing that function or, with respect to directors or executive officers, by the Compensation Committee, whose determination shall be final.

(d) Decisions of the Committee shall be final, conclusive and binding on all persons, including the Company, any Participant, any stockholder and any Eligible Person. A majority of the members of the Committee may determine its actions.

SECTION 4. SHARES SUBJECT TO THE PLAN

4.1 Authorized Number of Shares

Subject to adjustment from time to time as provided in Section 15.1, the aggregate maximum number of shares of Common Stock available for issuance under the Plan shall be:

(a) 32,640,000 shares; plus

(b) (i) any authorized shares available for issuance, and not issued or subject to outstanding awards, under the Company's 1996 Stock Plan (the "**Prior Plan**") on the Effective Date shall cease to be set aside and reserved for issuance pursuant to the Prior Plan, effective on the Effective Date, and shall instead be set aside and reserved for issuance pursuant to the Plan and (ii) any shares subject to outstanding awards under the Prior Plan on the Effective Date that cease to be subject to such awards following the Effective Date (other than by reason of exercise or settlement of the awards to the extent they are exercised for or settled in vested or nonforfeitable shares) shall cease to be set aside or reserved for issuance pursuant to the Prior Plan, effective on the date upon which they cease to be so subject to such awards, and shall instead be set aside and reserved for issuance pursuant to the Plan, up to an aggregate maximum of 8,699,550 shares pursuant to clauses (i) and (ii) of this paragraph (b).

Shares issued under the Plan shall be drawn from authorized and unissued shares or shares now held or subsequently acquired by the Company as treasury shares.

4.2 Share Usage

(a) Any shares of Common Stock subject to Stock Awards, Restricted Stock, Stock Units, Performance Shares and Performance Units shall count against the numerical limits of Section 4.1 as 2.2 shares of Common Stock for every one share of Common Stock subject thereto. If any such Award lapses, expires, terminates or is canceled prior to the issuance of shares thereunder or if shares of Common Stock are issued under the Plan to a Participant and thereafter are forfeited to or otherwise reacquired by the Company and would otherwise return to the Plan pursuant to Section 4.2(b), 2.2 times the number of shares of Common Stock covered by such Award shall return to the Plan and shall again be available for issuance.

(b) Shares of Common Stock covered by an Award shall not be counted as used unless and until they are actually issued and delivered to a Participant. If any Award lapses, expires, terminates or is canceled prior to the issuance of shares thereunder, is settled in cash in lieu of shares of Common Stock, or if shares of Common Stock are issued under the Plan to a Participant and thereafter are forfeited to or otherwise reacquired by the Company, the shares subject to such Awards and the forfeited or reacquired shares shall again be available for issuance under the Plan. covered by an Award that is settled in such a manner such that some or all of the shares of Common Stock covered by the Award are not issued, shall again be available for Awards under the Plan. The number of shares of Common Stock available for issuance under the Plan shall not be reduced to reflect any dividends or dividend equivalents that are reinvested into additional shares of Common Stock or credited as additional shares of Common Stock subject or paid with respect to an Award. Notwithstanding the foregoing, any shares of Common Stock tendered by a Participant or retained by the Company as full or partial payment to the Company for the exercise or purchase price of an Award, or to satisfy tax withholding obligations in connection with an Award, shall not again be available for Awards under the Plan.

(c) The Committee shall also, without limitation, have the authority to grant Awards as an alternative to or as the form of payment for grants or rights earned or due under other compensation plans or arrangements of the Company.

(d) Notwithstanding any other provision of the Plan to the contrary, the Committee may grant Substitute Awards under the Plan. Substitute Awards shall not reduce the number of shares authorized for issuance under the Plan. In the event that an Acquired Entity has shares available for awards or grants under one or more preexisting plans not adopted in contemplation of such acquisition or combination and previously approved by the Acquired Entity's stockholders, then, to the extent determined by the Board or the Compensation Committee, the shares available for grant pursuant to the terms of such preexisting plans (as adjusted, to the extent appropriate, using the exchange ratio or other adjustment or valuation ratio or formula used in such acquisition or combination to determine the consideration payable to holders of securities of the entities that are parties to such acquisition or combination) may be used for Awards under the Plan and shall not reduce the number of shares of Common Stock authorized for issuance under the Plan; provided, however, that Awards using such available shares shall not be made after the date awards or grants could have been made under the terms of such preexisting plans, absent the acquisition or combination, and shall only be made to individuals who were not employees or directors of the Company or a Related Company prior to such acquisition or combination. In the event that a written agreement between the Company and an Acquired Entity pursuant to which a merger or consolidation is completed is approved by the Board and that agreement sets forth the terms and conditions of the substitution for or assumption of outstanding awards of the Acquired Entity, those terms and conditions shall be deemed to be the action of the Committee without any further action by the Committee, except as may be required for compliance with Rule 16b-3 under the Exchange Act, and the persons holding such awards shall be deemed to be Participants.

(e) Notwithstanding any other provision of this Section 4.2 to the contrary, the maximum number of shares that may be issued upon the exercise of Incentive Stock Options shall equal the aggregate share number stated in Section 4.1, subject to adjustment as provided in Section 15.1.

4.3 Limitations

Subject to adjustment as provided in Section 15.1, the aggregate number of shares that may be issued pursuant to Awards granted under the Plan that either (a) contain no restrictions or restrictions based solely on continuous employment or services over fewer than three years (except if accelerated pursuant to a Change in Control or in the event of a Termination of Service) or (b) vest over less than one year (except if accelerated pursuant to a Change in Control or in the event of a Termination of Service) based on factors other than solely continuous employment or services shall not exceed 5% of the aggregate maximum number of shares specified in Section 4.1. In addition, if and to the extent the Committee accelerates vesting or exercisability of an Award or otherwise acts to waive or lapse any restriction on an Award, other than in connection with a Participant's death, Disability or Retirement or a Change of Control, the shares covered by such Committee action shall similarly count towards the 5% limitation described in this Section 4.3. The Committee may not waive the achievement of performance goals related to an Award except in the case of a participant's death or Disability. Awards granted to any Participant under the Plan shall also be subject to the size limitations described in Section 16.3(a).

SECTION 5. ELIGIBILITY

An Award may be granted to any employee, officer or director of the Company or a Related Company whom the Committee from time to time selects. An Award may also be granted to any consultant, agent, advisor or independent contractor for bona fide services rendered to the Company or any Related Company that (a) are not in connection with the offer and sale of the Company's securities in a capital-raising transaction and (b) do not directly or indirectly promote or maintain a market for the Company's securities.

SECTION 6. AWARDS

6.1 Form, Grant and Settlement of Awards

The Committee shall have the authority, in its sole discretion, to determine the type or types of Awards to be granted under the Plan. Such Awards may be granted either alone or in addition to or in tandem with any other type of Award. Any Award settlement may be subject to such conditions, restrictions and contingencies as the Committee shall determine.

6.2 Evidence of Awards

Awards granted under the Plan shall be evidenced by a written, including an electronic, instrument that shall contain such terms, conditions, limitations and restrictions as the Committee shall deem advisable and that are not inconsistent with the Plan.

6.3 Dividends and Distributions

Participants may, if the Committee so determines, be credited with dividends or dividend equivalents paid with respect to shares of Common Stock underlying an Award in a manner determined by the Committee in its sole discretion. The Committee may apply any restrictions to the dividends or dividend equivalents that the Committee deems appropriate. The Committee, in its sole discretion, may determine the form of payment of dividends or dividend equivalents, including cash, shares of Common Stock, Restricted Stock or Stock Units. Notwithstanding the foregoing, the right to any dividends or dividend equivalents declared and paid on the number of shares underlying an Option or a Stock Appreciation Right may not be contingent, directly or indirectly, on the exercise of the Option or Stock Appreciation Right, and must comply with or qualify for an exemption under Section 409A. Also notwithstanding the foregoing, the right to any dividends or dividend equivalents declared and paid on Restricted Stock must (i) be paid at the same time such dividends or dividend equivalents are paid to other stockholders and (ii) comply with or qualify for an exemption under Section 409A. Also notwithstanding the foregoing, no Participant shall be paid amounts with respect to dividends or dividend equivalents credited with respect to unvested Awards while such Awards remain unvested.

SECTION 7. OPTIONS

7.1 Grant of Options

The Committee may grant Options designated as Incentive Stock Options or Nonqualified Stock Options.

7.2 Option Exercise Price

Options shall be granted with an exercise price per share not less than 100% of the Fair Market Value of the Common Stock on the Grant Date (and such exercise price shall not be less than the minimum exercise price required by Section 422 of the Code with respect to Incentive Stock Options), except in the case of Substitute Awards.

7.3 Term of Options

Subject to earlier termination in accordance with the terms of the Plan and the instrument evidencing the Option, the maximum term of an Option shall be seven years from the Grant Date.

7.4 Exercise of Options

(a) The Committee shall establish and set forth in each instrument that evidences an Option the time at which, or the installments in which, the Option shall vest and become exercisable, any of which provisions may be waived or modified by the Committee at any time.

(b) To the extent an Option has vested and become exercisable, the Option may be exercised in whole or from time to time in part by delivery to or as directed or approved by the Company of a properly executed stock option exercise agreement or notice, in a form and in accordance with procedures established by the Committee, setting forth the number of shares with respect to which the Option is being exercised, the restrictions imposed on the shares purchased under such exercise agreement or notice, if any, and such representations and agreements as may be required by the Committee, accompanied by payment in full as described in Section 7.5. An Option may be exercised only for whole shares and may not be exercised for less than a reasonable number of shares at any one time, as determined by the Committee.

7.5 Payment of Exercise Price

The exercise price for shares purchased under an Option shall be paid in full to the Company by delivery of consideration equal to the product of the Option exercise price and the number of shares purchased. Such consideration must be paid before the Company will issue the shares being purchased and must be in a form or a combination of forms acceptable to the Committee for that purchase, which forms may include:

(a) cash;

(b) check or wire transfer;

(c) having the Company withhold shares of Common Stock that would otherwise be issued on exercise of a Nonqualified Stock Option that have an aggregate Fair Market Value equal to the aggregate exercise price of the shares being purchased under the Option;

(d) tendering (either actually or, so long as the Common Stock is registered under Section 12(b) or 12(g) of the Exchange Act, by attestation) shares of Common Stock owned by the Participant that have an aggregate Fair Market Value equal to the aggregate exercise price of the shares being purchased under the Option;

(e) so long as the Common Stock is registered under Section 12(b) or 12(g) of the Exchange Act, and to the extent permitted by law, delivery of a properly executed exercise agreement or notice, together with irrevocable instructions to a brokerage firm designated or approved by the Company to deliver promptly to the Company the aggregate amount of proceeds to pay the Option exercise price and any withholding tax obligations that may arise in connection with the exercise, all in accordance with the regulations of the Federal Reserve Board; or

(f) such other consideration as the Committee may permit.

7.6 Effect of Termination of Service

(a) The Committee shall establish and set forth in each instrument that evidences an Option whether the Option shall continue to be exercisable, and the terms and conditions of such exercise, after a Termination of Service, any of which provisions may be waived or modified by the Committee at any time.

(b) If the exercise of the Option following a Participant's Termination of Service, but while the Option is otherwise exercisable, would be prohibited solely because the issuance of Common Stock would violate either the registration requirements under the Securities Act or the Company's insider trading policy, then the Option shall remain exercisable until the earlier of (i) the Option Expiration Date or (ii) the expiration of a period of three months (or such longer period of time as determined by the Committee in its sole discretion, which longer period shall not be more than two months beyond the aforementioned three months) after the Participant's Termination of Service during which the exercise of the Option would not be in violation of such Securities Act or insider trading policy requirements.

SECTION 8. INCENTIVE STOCK OPTION LIMITATIONS

Notwithstanding any other provision of the Plan to the contrary, the terms and conditions of any Incentive Stock Options shall in addition comply in all respects with Section 422 of the Code, or any successor provision, and any applicable regulations thereunder. If the shareholders of the Company do not approve the Plan within 12 months after the Board's adoption of the Plan (or the Board's adoption of any amendment to the Plan that constitutes the adoption of a new plan for purposes of Section 422 of the Code) Incentive Stock Options granted under the Plan after the date of the Board's adoption (or approval) will be treated as Nonqualified Stock Options. No Incentive Stock Options may be granted more than ten years after the earlier of the approval by the Board or the shareholders of the Plan (or any amendment to the Plan that constitutes the adoption of a new plan for purposes of Section 422 of the Code).

SECTION 9. STOCK APPRECIATION RIGHTS

9.1 Grant of Stock Appreciation Rights

The Committee may grant Stock Appreciation Rights to Participants at any time on such terms and conditions as the Committee shall determine in its sole discretion. An SAR may be granted in tandem with an Option (a “*tandem SAR*”) or alone (a “*freestanding SAR*”). The grant price of a tandem SAR shall be equal to the exercise price of the related Option. The grant price of a freestanding SAR shall be established in accordance with procedures for Options set forth in Section 7.2. A SAR may be exercised upon such terms and conditions and for such term as the Committee determines in its sole discretion; provided, however, that, subject to earlier termination in accordance with the terms of the Plan and the instrument evidencing the SAR, the maximum term of a freestanding SAR shall be seven years, and in the case of a tandem SAR, (a) the term shall not exceed the term of the related Option and (b) the tandem SAR may be exercised for all or part of the shares subject to the related Option upon the surrender of the right to exercise the equivalent portion of the related Option, except that the tandem SAR may be exercised only with respect to the shares for which its related Option is then exercisable.

9.2 Payment of SAR Amount

Upon the exercise of an SAR, a Participant shall be entitled to receive payment in an amount determined by multiplying: (a) the difference between the Fair Market Value of the Common Stock on the date of exercise over the grant price of the SAR by (b) the number of shares with respect to which the SAR is exercised. At the discretion of the Committee as set forth in the instrument evidencing the Award, the payment upon exercise of an SAR may be in cash, in shares, in some combination thereof or in any other manner approved by the Committee in its sole discretion.

9.3 Waiver of Restrictions

The Committee, in its sole discretion, may waive any other terms, conditions or restrictions on any SAR under such circumstances and subject to such terms and conditions as the Committee shall deem appropriate.

SECTION 10. STOCK AWARDS, RESTRICTED STOCK AND STOCK UNITS

10.1 Grant of Stock Awards, Restricted Stock and Stock Units

The Committee may grant Stock Awards, Restricted Stock and Stock Units on such terms and conditions and subject to such repurchase or forfeiture restrictions, if any, which may be based on continuous employment or service with the Company or a Related Company or the achievement of any performance goals, as the Committee shall determine in its sole discretion, which terms, conditions and restrictions shall be set forth in the instrument evidencing the Award.

10.2 Vesting of Restricted Stock and Stock Units

Upon the satisfaction of any terms, conditions and restrictions prescribed with respect to Restricted Stock or Stock Units, or upon a Participant’s release from any terms, conditions and restrictions on Restricted Stock or Stock Units, as determined by the Committee, and subject to the provisions of Section 13, (a) the shares covered by each Award of Restricted Stock shall become freely transferable by the Participant, and (b) Stock Units shall be paid in shares of Common Stock or, if set forth in the instrument evidencing the Awards, in cash or a combination of cash and shares of Common Stock. Any fractional shares subject to such Awards shall be paid to the Participant in cash.

10.3 Waiver of Restrictions

The Committee, in its sole discretion, may waive the repurchase or forfeiture period and any other terms, conditions or restrictions on any Restricted Stock or Stock Units under such circumstances and subject to such terms and conditions as the Committee shall deem appropriate.

SECTION 11. PERFORMANCE AWARDS

11.1 Performance Shares

The Committee may grant Awards of Performance Shares, designate the Participants to whom Performance Shares are to be awarded and determine the number of Performance Shares and the terms and conditions of each such Award. Performance Shares shall consist of a unit valued by reference to a designated number of shares of Common Stock, the value of which may be paid to the Participant by delivery of shares of Common Stock or, if set forth in the instrument evidencing the Award, of such property as the Committee shall determine, including, without limitation, cash, shares of Common Stock, other property, or any combination thereof, upon the attainment of performance goals, as established by the Committee, and other terms and conditions specified by the Committee. The amount to be paid under an Award of Performance Shares may be adjusted on the basis of such further consideration as the Committee shall determine in its sole discretion.

11.2 Performance Units

The Committee may grant Awards of Performance Units, designate the Participants to whom Performance Units are to be awarded and determine the number of Performance Units and the terms and conditions of each such Award. Performance Units shall consist of a unit valued by reference to a designated amount of property other than shares of Common Stock, which value may be paid to the Participant by delivery of such property as the Committee shall determine, including, without limitation, cash, shares of Common Stock, other property, or any combination thereof, upon the attainment of performance goals, as established by the Committee, and other terms and conditions specified by the Committee. The amount to be paid under an Award of Performance Units may be adjusted on the basis of such further consideration as the Committee shall determine in its sole discretion.

SECTION 12. OTHER STOCK OR CASH-BASED AWARDS

Subject to the terms of the Plan and such other terms and conditions as the Committee deems appropriate, the Committee may grant other incentives payable in cash or in shares of Common Stock under the Plan.

SECTION 13. WITHHOLDING

13.1 Payment of Tax Withholding and Other Obligations

The Company may require the Participant to pay to the Company or a Related Company, as applicable, the amount of (i) any taxes that the Company or a Related Company is required by applicable federal, state, local or foreign law to withhold with respect to the grant, vesting or exercise of an Award or any other taxable or tax withholding event related to an Award (“*tax withholding obligations*”) and (ii) any amounts due from the Participant to the Company or to any Related Company (“*other obligations*”). Notwithstanding any other provision of the Plan to the contrary, the Company shall not be required to issue any shares of Common Stock or otherwise settle an Award under the Plan until such tax withholding obligations and other obligations are satisfied.

13.2 Payment Methods

The Committee, in its sole discretion, may permit or require a Participant to satisfy all or part of the Participant’s tax withholding obligations and other obligations by one or a combination of any of the following: (i) paying cash to the Company or a Related Company, as applicable, (ii) having the Company, or a Related Company, as applicable, withhold an amount from any cash amounts otherwise due or to become due from the Company or a Related Company to the Participant, (iii) having the Company withhold a number of shares of Common Stock that would otherwise be issued to the Participant (or become vested, in the case of Restricted Stock) having a Fair Market Value equal to the tax withholding obligations and other obligations, (iv) surrendering a number of shares of Common Stock the Participant already owns having a value equal to the tax withholding obligations and other obligations, (v) selling shares of Common Stock issued under an Award on the open market or to the Company, or (vi) taking such other action as may be necessary in the opinion of the Committee to satisfy any applicable tax withholding obligations. The value of the shares so withheld or tendered may not exceed the employer’s applicable minimum required tax withholding rate or such other applicable rate as is necessary to avoid adverse treatment for financial accounting purposes, as determined by the Committee in its sole discretion.

SECTION 14. ASSIGNABILITY

No Award or interest in an Award may be sold, assigned, pledged (as collateral for a loan or as security for the performance of an obligation or for any other purpose) or transferred by a Participant or made subject to attachment or similar proceedings otherwise than by will or by the applicable laws of descent and distribution, except to the extent, at the discretion of the Committee, the instrument evidencing the Award permits the Participant to designate one or more beneficiaries on a Company-approved form who may exercise the Award or receive payment under the Award after the Participant's death. During a Participant's lifetime, an Award may be exercised only by the Participant. Notwithstanding the foregoing, and to the extent permitted by Section 422 of the Code, the Committee, in its sole discretion, may permit a Participant to assign or transfer an Award subject to such terms and conditions as the Committee shall specify.

SECTION 15. ADJUSTMENTS

15.1 Adjustment of Shares

In the event that, at any time or from time to time, a stock dividend, stock split, spin-off, combination or exchange of shares, recapitalization, merger, consolidation, distribution to stockholders other than a normal cash dividend, or other change in the Company's corporate or capital structure results in (a) the outstanding shares of Common Stock, or any securities exchanged therefor or received in their place, being exchanged for a different number or kind of securities of the Company or (b) new, different or additional securities of the Company or any other company being received by the holders of shares of Common Stock, then the Committee shall make proportional adjustments in (i) the maximum number and kind of securities available for issuance under the Plan; (ii) the maximum number and kind of securities issuable as Incentive Stock Options as set forth in Section 4.2; (iii) the maximum numbers and kind of securities set forth in Section 16.3; (iv) the maximum number and kind of securities set forth in Section 4.3; and (v) the number and kind of securities that are subject to any outstanding Award and the per share price of such securities, without any change in the aggregate price to be paid therefor. The determination by the Committee as to the terms of any of the foregoing adjustments shall be conclusive and binding.

Notwithstanding the foregoing, the issuance by the Company of shares of stock of any class, or securities convertible into shares of stock of any class, for cash or property, or for labor or services rendered, either upon direct sale or upon the exercise of rights or warrants to subscribe therefor, or upon conversion of shares or obligations of the Company convertible into such shares or other securities, shall not affect, and no adjustment by reason thereof shall be made with respect to, outstanding Awards. Also notwithstanding the foregoing, a dissolution or liquidation of the Company or a Company Transaction shall not be governed by this Section 15.1 but shall be governed by Sections 15.2 and 15.3, respectively.

15.2 Dissolution or Liquidation

To the extent not previously exercised or settled, and unless otherwise determined by the Committee in its sole discretion, Awards shall terminate immediately prior to the dissolution or liquidation of the Company. To the extent a vesting condition, forfeiture provision or repurchase right applicable to an Award has not been waived by the Committee, the Award shall be forfeited immediately prior to the consummation of the dissolution or liquidation.

15.3 Change in Control

Notwithstanding any other provision of the Plan to the contrary, unless the Committee shall determine otherwise in the instrument evidencing the Award or in a written employment, services or other agreement between the Participant and the Company or a Related Company, in the event of a Change in Control:

(a) All outstanding Awards that are subject to vesting based on continued employment or service with the Company or a Related Company shall become fully vested and immediately exercisable or payable, and all applicable restrictions or forfeiture provisions shall lapse, immediately prior to the Change in Control and such

Awards shall terminate at the effective time of the Change in Control; provided, however, that with respect to a Change in Control that is a Company Transaction in which such Awards could be converted, assumed, substituted for or replaced by the Successor Company, such Awards shall become fully vested and exercisable or payable, and all applicable restrictions or forfeiture provisions shall lapse, only if and to the extent such Awards are not converted, assumed, substituted for or replaced by the Successor Company. If and to the extent that the Successor Company converts, assumes, substitutes for or replaces an Award, the vesting restrictions and/or forfeiture provisions applicable to such Award shall not be accelerated or lapse, and all such vesting restrictions and/or forfeiture provisions shall continue with respect to any shares of the Successor Company or other consideration that may be received with respect to such Award.

For the purposes of this Section 15.3(a), an Award shall be considered converted, assumed, substituted for or replaced by the Successor Company if following the Company Transaction the Award confers the right to purchase or receive, for each share of Common Stock subject to the Award immediately prior to the Company Transaction, the consideration (whether stock, cash or other securities or property) received in the Company Transaction by holders of Common Stock for each share held on the effective date of the transaction (and if holders were offered a choice of consideration, the type of consideration chosen by the holders of a majority of the outstanding shares); provided, however, that if such consideration received in the Company Transaction is not solely common stock of the Successor Company, the Committee may, with the consent of the Successor Company, provide for the consideration to be received pursuant to the Award, for each share of Common Stock subject thereto, to be solely common stock of the Successor Company substantially equal in fair market value to the per share consideration received by holders of Common Stock in the Company Transaction. The determination of such substantial equality of value of consideration shall be made by the Committee, and its determination shall be conclusive and binding.

(b) All Performance Shares, Performance Units and other outstanding Awards that are subject to vesting based on the achievement of specified performance goals and that are earned and outstanding as of the date the Change in Control is determined to have occurred and for which the payout level has been determined shall be payable in full in accordance with the payout schedule pursuant to the instrument evidencing the Award. Any remaining outstanding Performance Shares, Performance Units and other outstanding Awards that are subject to vesting based on the achievement of specified performance goals (including any applicable performance period) for which the payout level has not been determined shall be prorated and shall be payable in accordance with the payout schedule pursuant to the instrument evidencing the Award. Any existing deferrals or other restrictions not waived by the Committee in its sole discretion shall remain in effect.

(c) Notwithstanding the foregoing, the Committee, in its sole discretion, may instead provide in the event of a Change in Control that is a Company Transaction that a Participant's outstanding Awards shall terminate upon or immediately prior to such Company Transaction and that such Participant shall receive, in exchange therefor, a cash payment equal to the amount (if any) by which (x) the value of the per share consideration received by holders of Common Stock in the Company Transaction, or, in the event the Company Transaction is one of the transactions listed under subsection (c) in the definition of Company Transaction or otherwise does not result in direct receipt of consideration by holders of Common Stock, the value of the deemed per share consideration received, in each case as determined by the Committee in its sole discretion, multiplied by the number of shares of Common Stock subject to such outstanding Awards (to the extent then vested and exercisable or whether or not then vested and exercisable, as determined by the Committee in its sole discretion) exceeds (y) if applicable, the respective aggregate exercise price or grant price for such Awards.

(d) For the avoidance of doubt, nothing in this Section 15.3 requires all outstanding Awards to be treated similarly.

15.4 Further Adjustment of Awards

Subject to Sections 15.2 and 15.3, the Committee shall have the discretion, exercisable at any time before a sale, merger, consolidation, reorganization, liquidation, dissolution or change of control of the Company, as defined by the Committee, to take such further action as it determines to be necessary or advisable with respect to Awards. Such authorized action may include (but shall not be limited to) establishing, amending or waiving the type, terms, conditions or duration of, or restrictions on, Awards so as to provide for earlier, later, extended or additional time for exercise, lifting restrictions and other modifications, and the Committee may take such actions with respect to all Participants, to certain categories of Participants or only to individual Participants. The Committee may take such action before or after granting Awards to which the action relates and before or after any public announcement with respect to such sale, merger, consolidation, reorganization, liquidation, dissolution or change of control that is the reason for such action.

15.5 No Limitations

The grant of Awards shall in no way affect the Company's right to adjust, reclassify, reorganize or otherwise change its capital or business structure or to merge, consolidate, dissolve, liquidate or sell or transfer all or any part of its business or assets.

15.6 No Fractional Shares

In the event of any adjustment in the number of shares covered by any Award, each such Award shall cover only the number of full shares resulting from such adjustment, and any fractional shares resulting from such adjustment shall be disregarded.

15.7 Section 409A

Notwithstanding any other provision of the Plan to the contrary, (a) any adjustments made pursuant to this Section 15 to Awards that are considered “deferred compensation” within the meaning of Section 409A shall be made in compliance with the requirements of Section 409A and (b) any adjustments made pursuant to this Section 15 to Awards that are not considered “deferred compensation” subject to Section 409A shall be made in such a manner as to ensure that after such adjustment the Awards either (i) continue not to be subject to Section 409A or (ii) comply with the requirements of Section 409A.

SECTION 16. CODE SECTION 162(m) PROVISIONS

Notwithstanding any other provision of the Plan to the contrary, if the Committee determines, at the time Awards are granted to a Participant who is, or is likely to be as of the end of the tax year in which the Company would claim a tax deduction in connection with such Award, a Covered Employee, then the Committee may provide that this Section 16 is applicable to such Award.

16.1 Performance Criteria

(a) If an Award is subject to this Section 16, then the lapsing of restrictions thereon and the distribution of cash, shares of Common Stock or other property pursuant thereto, as applicable, shall be subject to the achievement of one or more objective performance goals established by the Committee, which shall be based on the attainment of specified levels of one of or any combination of the following “performance criteria” for the Company as a whole or any business unit of the Company, as reported or calculated by the Company: cash flows (including, but not limited to, operating cash flow, free cash flow or cash flow return on capital); cash position; working capital; earnings per share; earnings before interest and taxes; earnings before interest, taxes, depreciation and amortization; book value per share; operating income (including or excluding depreciation, amortization, extraordinary items, restructuring charges or other expenses); revenues; operating margins; operating earnings; economic profit; profit before tax; return on assets; return on equity; debt; debt plus equity; ratio of debt to debt plus equity; ratio of operating earnings to capital spending; sales growth; market or economic value added; equity or stockholder’s equity; stock price appreciation; total stockholder return; cost control; strategic initiatives; market share; net income; net profit; net sales; return on invested capital; improvements in capital structure; or customer satisfaction, employee satisfaction, services performance, subscriber, cash management or asset management metrics (together, the “Performance Criteria”).

(b) Such performance goals also may be based on the achievement of specified levels of Company performance (or performance of an applicable affiliate or business unit of the Company) under one or more of the Performance Criteria described above relative to the performance of other corporations. Such performance goals shall be set by the Committee within the time period prescribed by, and shall otherwise comply with the requirements of, Section 162(m) of the Code, or any successor provision thereto, and the regulations thereunder.

(c) The Committee may provide in any such Award that any evaluation of performance may include or exclude any of the following events that occurs during a performance period: (i) asset write-downs, (ii) litigation or claim judgments or settlements, (iii) the effect of changes in tax laws, accounting principles, or other laws or provisions affecting reported results, (iv) any reorganization and restructuring programs, (v) extraordinary nonrecurring items as described in Accounting Standards Codification 225-20 and/or in Management’s Discussion and Analysis of Financial Condition and Results of Operations appearing in the Company’s annual report to stockholders for the applicable year, (vi) acquisitions or divestitures, (vii) foreign exchange gains and losses, and (viii) gains and losses on asset sales. To the extent such inclusions or exclusions affect Awards to Covered Employees, they shall be prescribed in a form that satisfies the requirements for “performance-based compensation” within the meaning of Section 162(m)(4)(C) of the Code, or any successor provision thereto.

16.2 Compensation Committee Certification; Adjustment of Awards

(a) After the completion of each performance period, the Compensation Committee shall certify the extent to which any performance goal established under this Section 16 has been satisfied, and the amount payable as a result thereof, prior to payment, settlement or vesting, as applicable, of any Award subject to this Section 16.

(b) Notwithstanding any provision of the Plan other than Section 15, with respect to any Award that is subject to this Section 16, the Committee may adjust downwards, but not upwards, the amount payable pursuant to such Award, and the Committee may not waive the achievement of the applicable performance goals except in the case of the death or disability of the Covered Employee.

16.3 Limitations

(a) Subject to adjustment from time to time as provided in Section 15.1, no Covered Employee may be granted Awards other than Performance Units subject to this Section 16 in any calendar year period with respect to more than 2,000,000 shares of Common Stock for such Awards, except that the Company may make additional onetime grants of such Awards for up to 2,000,000 shares to newly hired or newly promoted individuals, and the maximum dollar value payable with respect to Performance Units or other awards payable in cash subject to this Section 16 granted to any Covered Employee in any one calendar year is \$10,000,000.

(b) The Committee shall have the power to impose such other restrictions on Awards subject to this Section 16 as it may deem necessary or appropriate to ensure that such Awards satisfy all requirements for “performance-based compensation” within the meaning of Section 162(m)(4)(C) of the Code, or any successor provision thereto.

SECTION 17. AMENDMENT AND TERMINATION

17.1 Amendment, Suspension or Termination

The Board or the Compensation Committee may amend, suspend or terminate the Plan or any portion of the Plan at any time and in such respects as it shall deem advisable; provided, however, that, to the extent required by applicable law, regulation or stock exchange rule, stockholder approval shall be required for any amendment to the Plan; and provided, further, that any amendment that requires stockholder approval may be made only by the Board. Subject to Section 17.3, the Committee may amend the terms of any outstanding Award, prospectively or retroactively.

17.2 Term of the Plan

Unless sooner terminated as provided herein, the Plan shall automatically terminate ten years from the Effective Date. After the Plan is terminated, no future Awards may be granted, but Awards previously granted shall remain outstanding in accordance with their terms and conditions and the Plan’s terms and conditions.

17.3 Consent of Participant

The amendment, suspension or termination of the Plan or a portion thereof or the amendment of an outstanding Award shall not, without the Participant’s consent, materially adversely affect any rights under any Award theretofore granted to the Participant under the Plan. Any change or adjustment to an outstanding Incentive Stock Option shall not, without the consent of the Participant, be made in a manner so as to constitute a “modification” that would cause such Incentive Stock Option to fail to continue to qualify as an Incentive Stock Option. Notwithstanding the foregoing, any adjustments made pursuant to Section 15 shall not be subject to these restrictions.

SECTION 18. GENERAL

18.1 No Individual Rights

(a) No individual or Participant shall have any claim to be granted any Award under the Plan, and the Company has no obligation for uniformity of treatment of Participants under the Plan.

(b) Furthermore, nothing in the Plan or any Award granted under the Plan shall be deemed to constitute an employment contract or confer or be deemed to confer on any Participant any right to continue in the employ of, or to continue any other relationship with, the Company or any Related Company or limit in any way the right of the Company or any Related Company to terminate a Participant’s employment or other relationship at any time, with or without cause.

18.2 Issuance of Shares

(a) Notwithstanding any other provision of the Plan, the Company shall have no obligation to issue or deliver any shares of Common Stock under the Plan or make any other distribution of benefits under the Plan unless, in the opinion of the Company’s counsel, such issuance, delivery or distribution would comply with all applicable laws (including, without limitation, the requirements of the Securities Act or the laws of any state or foreign jurisdiction) and the applicable requirements of any securities exchange or similar entity.

(b) The Company shall be under no obligation to any Participant to register for offering or resale or to qualify for exemption under the Securities Act, or to register or qualify under the laws of any state or foreign jurisdiction, any shares of Common Stock, security or interest in a security paid or issued under, or created by, the Plan, or to continue in effect any such registrations or qualifications if made.

(c) The inability of the Company or impracticability for the Company, as determined by the Committee in its sole discretion, to obtain or maintain approval from any regulatory body having jurisdiction or to comply with applicable requirements, which approval and compliance are deemed by the Company's counsel to be necessary to the lawful issuance, delivery, and sale of any shares of Common Stock, shall relieve the Company of any liability in respect of the failure to issue, deliver, or sell such shares as to which the requisite approval has not been obtained or as to which any necessary requirements are not met.

(d) As a condition to the exercise of an Option or any other receipt of Common Stock pursuant to an Award under the Plan, the Company may require (i) the Participant to represent and warrant at the time of any such exercise or receipt that such shares are being purchased or received only for the Participant's own account and without any present intention to sell or distribute such shares and (ii) such other action or agreement by the Participant as may from time to time be necessary to comply with federal, state and foreign securities laws. At the option of the Company, a stop-transfer order against any such shares may be placed on the official stock books and records of the Company, and a legend indicating that such shares may not be pledged, sold or otherwise transferred, unless an opinion of counsel is provided (concurring in by counsel for the Company) stating that such transfer is not in violation of any applicable law or regulation, may be stamped on stock certificates to ensure exemption from registration. The Committee may also require the Participant to execute and deliver to the Company a purchase agreement or such other agreement as may be in use by the Company at such time that describes certain terms and conditions applicable to the shares.

(e) To the extent the Plan or any instrument evidencing an Award provides for issuance of stock certificates to reflect the issuance of shares of Common Stock, the issuance may be effected on a noncertificated basis, to the extent not prohibited by applicable law or the applicable rules of any stock exchange.

18.3 Indemnification

(a) Each person who is or shall have been a member of the Board, the Compensation Committee, or a committee of the Board or an officer of the Company to whom authority was delegated in accordance with Section 3, shall be indemnified and held harmless by the Company against and from any loss, cost, liability or expense that may be imposed upon or reasonably incurred by such person in connection with or resulting from any claim, action, suit or proceeding to which such person may be a party or in which such person may be involved by reason of any action taken or failure to act under the Plan and against and from any and all amounts paid by such person in settlement thereof, with the Company's approval, or paid by such person in satisfaction of any judgment in any such claim, action, suit or proceeding against such person; provided, however, unless such loss, cost, liability or expense is a result of such person's own willful misconduct or except as expressly provided by statute, that such person shall give the Company an opportunity, at its own expense, to handle and defend the same before such person undertakes to handle and defend it on such person's own behalf.

(b) The foregoing right of indemnification shall not be exclusive of any other rights of indemnification to which such person may be entitled under the Company's certificate of incorporation or bylaws, as a matter of law, or otherwise, or of any power that the Company may have to indemnify or hold harmless.

18.4 No Rights as a Stockholder

Unless otherwise provided by the Committee or in the instrument evidencing the Award or in a written employment, services or other agreement, no Award, other than a Stock Award or an Restricted Stock Award, shall entitle the Participant to any cash dividend, voting or other right of a stockholder unless and until the date of issuance under the Plan of the shares that are the subject of such Award.

18.5 Compliance with Laws and Regulations

(a) In interpreting and applying the provisions of the Plan, any Option granted as an Incentive Stock Option pursuant to the Plan shall, to the extent permitted by law, be construed as an "incentive stock option" within the meaning of Section 422 of the Code.

(b) The Plan and Awards granted under the Plan are intended to be exempt from the requirements of Section 409A to the maximum extent possible, whether pursuant to the short-term deferral exception described in Treasury Regulation Section 1.409A-1(b)(4), the exclusion applicable to stock options, stock appreciation rights and certain other equity-based compensation under Treasury Regulation Section 1.409A-1(b)(5), or otherwise.

To the extent Section 409A is applicable to the Plan or any Award granted under the Plan, it is intended that the Plan and any Awards granted under the Plan comply with the deferral, payout and other limitations and restrictions imposed under Section 409A. Notwithstanding any other provision of the Plan or any Award granted under the Plan to the contrary, the Plan and any Award granted under the Plan shall be interpreted, operated and administered in a manner consistent with such intentions. Without limiting the generality of the foregoing, and notwithstanding any other provision of the Plan or any Award granted under the Plan to the contrary, with respect to any payments and benefits under the Plan or any Award granted under the Plan to which Section 409A applies, all references in the Plan or any Award granted under the Plan to the termination of the Participant's employment or service are intended to mean the Participant's "separation from service," within the meaning of Section 409A(a)(2)(A)(i). In addition, if the Participant is a "specified employee," within the meaning of Section 409A, then to the extent necessary to avoid subjecting the Participant to the imposition of any additional tax under Section 409A, amounts that would otherwise be payable under the Plan or any Award granted under the Plan during the six-month period immediately following the Participant's "separation from service," within the meaning of Section 409A(a)(2)(A)(i), shall not be paid to the Participant during such period, but shall instead be accumulated and paid to the Participant (or, in the event of the Participant's death, the Participant's estate) in a lump sum on the first business day after the earlier of the date that is six months following the Participant's separation from service or the Participant's death. Notwithstanding any other provision of the Plan to the contrary, the Committee, to the extent it deems necessary or advisable in its sole discretion, reserves the right, but shall not be required, to unilaterally amend or modify the Plan and any Award granted under the Plan so that the Award qualifies for exemption from or complies with Section 409A; provided, however, that the Committee makes no representations that Awards granted under the Plan shall be exempt from or comply with Section 409A and makes no undertaking to preclude Section 409A from applying to Awards granted under the Plan.

(c) Also notwithstanding any other provision of the Plan to the contrary, the Board or the Compensation Committee shall have broad authority to amend the Plan or any outstanding Award without the consent of the Participant to the extent the Board or the Compensation Committee deems necessary or advisable to comply with, or take into account, changes in applicable tax laws, securities laws, accounting rules or other applicable laws, rules or regulations.

18.6 Participants in Other Countries or Jurisdictions

Without amending the Plan, the Committee may grant Awards to Eligible Persons who are foreign nationals on such terms and conditions different from those specified in the Plan as may, in the judgment of the Committee, be necessary or desirable to foster and promote achievement of the purposes of the Plan and shall have the authority to adopt such modifications, procedures, sub-plans and the like as may be necessary or desirable to comply with provisions of the laws or regulations of other countries or jurisdictions in which the Company or any Related Company may operate or have employees to ensure the viability of the benefits from Awards granted to Participants employed in such countries or jurisdictions, meet the requirements that permit the Plan to operate in a qualified or tax-efficient manner, comply with applicable foreign laws or regulations and meet the objectives of the Plan.

18.7 No Trust or Fund

The Plan is intended to constitute an "unfunded" plan. Nothing contained herein shall require the Company to segregate any monies or other property, or shares of Common Stock, or to create any trusts, or to make any special deposits for any immediate or deferred amounts payable to any Participant, and no Participant shall have any rights that are greater than those of a general unsecured creditor of the Company.

18.8 Successors

All obligations of the Company under the Plan with respect to Awards shall be binding on any successor to the Company, whether the existence of such successor is the result of a direct or indirect purchase, merger, consolidation, or otherwise, of all or substantially all the business and/or assets of the Company.

18.9 Severability

If any provision of the Plan or any Award is determined to be invalid, illegal or unenforceable in any jurisdiction, or as to any person, or would disqualify the Plan or any Award under any law deemed applicable by the Committee, such provision shall be construed or deemed amended to conform to applicable laws, or, if it cannot be so construed or deemed amended without, in the Committee's determination, materially altering the intent of the Plan or the Award, such provision shall be stricken as to such jurisdiction, person or Award, and the remainder of the Plan and any such Award shall remain in full force and effect.

18.10 Choice of Law and Venue

The Plan, all Awards granted thereunder and all determinations made and actions taken pursuant hereto, to the extent not otherwise governed by the laws of the United States, shall be governed by the laws of the State of Delaware without giving effect to principles of conflicts of law. Participants irrevocably consent to the nonexclusive jurisdiction and venue of the state and federal courts located in the State of Oregon.

18.11 Legal Requirements

The granting of Awards and the issuance of shares of Common Stock under the Plan are subject to all applicable laws, rules and regulations and to such approvals by any governmental agencies or national securities exchanges as may be required, whether located in the United States or a foreign jurisdiction.

SECTION 19. EFFECTIVE DATE

The Plan shall become effective on the date on which the Plan is approved by the stockholders of the Company (the "*Effective Date*").

LATTICE SEMICONDUCTOR CORPORATION**2020 Cash Incentive Plan Summary**

Purpose

The Lattice Cash Incentive Plan (the "Plan") directly supports the achievement of business objectives while rewarding individual contribution. Employees will be compensated both for achievement of specific financial measures derived from the Company's annual operating plan and corporate performance measured by the achievement of corporate MBOs. The Plan is established under the terms of and is governed by the Company's 2013 Incentive Plan and the Plan accordingly is subject to administration by the Compensation Committee of the Company's Board of Directors (the "Compensation Committee").

Effective Date

The Plan is effective the first day of the fiscal year as defined by the Lattice Finance Department.

Incentive Period

The Incentive Period is the fiscal year as defined by the Lattice Finance Department.

Incentive Payment

Incentives are paid annually following the close of the fiscal year, audit of the Company's financial results for the year, determination of the achievement of Corporate MBOs and Compensation Committee approval of the proposed payment.

Eligibility

Regular employees become eligible to participate in the plan beginning on their hire date, except as otherwise provided under the heading Other General Provisions hereafter. Employees in grade 16 and above (hereafter "Executives") become eligible to participate as provided in their initial offer letter or Employment Agreement, as applicable.

Eligibility excludes the following:

- Those who are eligible under the Company's Sales Incentive Plan ("SIP");
- Temporary employees (including interns) and contractors; and
- Any other persons deemed ineligible by application of the provisions set forth under the heading "Other General Provisions" hereafter.

Incentive Targets

Each participant will be assigned an incentive target ("Individual Target") established under the Company's compensation practices. The Individual Target, stated as a percentage of Eligible Wages, is the potential incentive amount that an employee may earn if all funding and performance criteria for the Incentive Period are met at 100% of target. Changes in the Individual Target during the fiscal year will be prorated as provided under the heading Other General Provisions hereafter.

Participants may earn from 0% up to 200% of their Individual Target based on achievement of funding and performance criteria as outlined herein.

Performance Metrics

The table below contains the three (3) performance metrics and their respective weight that is applied to determine the 2020 bonus pool funding. The Compensation Committee of the Board of Directors approves the Corporate MBOs as well as the payout factor of the Corporate MBOs at the end of the preceding fiscal year. The determination of the Committee is final.

| 2020 Performance Metric | Metric Weight |
|-------------------------|---------------|
| 1 - Operating Income | 33.3% |
| 2 - Revenue | 33.3% |
| 3 - Corporate MBOs | 33.3% |
| Total | 100% |

Funding

Pool funding is based on the achievement of the financial metrics Revenue and Operating Income. No funding will take place until either the Revenue threshold or Operating Income threshold are achieved. Once the Revenue threshold or Operating Income threshold is attained, the Corporate MBOs will begin to payout and will be based on the Corporate MBOs payout factor approved by the Compensation Committee of the Board of Directors. The Corporate MBOs have a maximum payout factor of 100%.

Once the financial metrics achieve their threshold the metric will fund the plan on a linear basis starting with a payout factor of 0% and continuing until the maximum payout factor of 250% is attained.

Operating Income is defined as Non-GAAP Operating Income before incentive accrual and acquisition related expenses.

The Compensation Committee reserves the right to adjust the financial metrics in the event the Company engages in non-ordinary course transactions, including without limitation, mergers, acquisitions or divestitures.

Employee Payout

At the end of the Incentive Period, employees will be eligible for an incentive based on the following formula.

New for 2020, 25% of an employee's incentive is variable based upon management discretion and is variable between 0-200%, and 75% of an employee's incentive is formula-driven, based on the CIP funding % and employee's individual target.

$$\text{Employee Payout} = \{(\text{Employee's Eligible Earnings} \times \text{Individual Bonus Target}) \times [(75\% \times \text{Weighted Company Bonus Funding}) + (25\% \times \text{Weighted Company Bonus Funding} \times 0\text{-}200\% \text{ Manager discretion})]\}$$

The Compensation Committee reserves the right to reduce or increase any amount payable under this Plan, including without limitation amounts payable on application of this formula.

Other General Provisions

Current Employees

Employee must be both a regular and active employee to participate in the plan. Employee payments will be prorated to exclude the number of calendar days the employee is not both a regular and active employee during the incentive period.

New Employees

New regular employees will be eligible to participate in the plan effective on the date they become actively employed. The employee payout will be prorated based on the number of calendar days they are actively employed during the incentive period.

Transfers

Regular employees that transfer either on to or off of the Sales Incentive Plan will have their employee payout prorated based on the number of calendar days they are eligible to participate in the Corporate Incentive Plan during the incentive period.

Changes in Incentive Targets

Changes in incentive targets will be prorated based on the number of calendar days the incentive target is in effect during the incentive period.

Leaves of Absence

Employee payments will be prorated to exclude the number of calendar days the employee is on leave during the incentive period, unless otherwise provided by local law.

Terminations - Voluntary and Involuntary

Employee must be in an active, eligible employment status as of the date incentive payments are actually paid to be eligible to receive an incentive payout for the prior Incentive Period and such incentive is not deemed to be earned until the payment date. No pro rata or partial payment will be paid for employees who are not actively employed on the date payments are made.

The following exception is applicable to all payments: An eligible employee whose termination date, as a result of an approved Employee Restructure Plan, is on or after the last day of the incentive period, but prior to the actual payment date shall remain eligible for an incentive payout for that plan year, subject to all other plan provisions.

Incentive Payments

Incentive payments will be made after the end of the fiscal year, once financial results have been determined and audited, and the Corporate MBOs have been reviewed and approved by the Compensation Committee and Board of Directors as provided above.

Eligible Wages

Eligible Wages means the 12-month base salary paid during the applicable incentive period, exclusive of any bonuses or wage supplements, unless otherwise required by local law. In the case of hourly employees, Eligible Wages mean ordinary wages earned and paid exclusive of any overtime wages paid during the incentive period.

Performance Improvement Plan

Employees who are on a formal Performance Improvement Plan (PIP) due to an Improvement Required rating determination or other unsatisfactory performance at the end of the incentive period will not be eligible for an incentive payment. The determination of the employee's manager shall be conclusive and final with respect to the issue of whether a PIP has been satisfactorily performed.

Taxing

All required and applicable taxes and deductions will be withheld from incentive payments.

Plan Administrators

The Compensation Committee of the Board of Directors will oversee the Plan. The Lattice Finance Department will make all determinations of the Revenue and Operating Income metrics. The Lattice Human Resources Department will administer the Plan.

Manager Discretion

25% of each employee's bonus is subject to manager discretion, which can vary from 0 – 200%. Manager discretion is based upon an assessment of each employee's relative contributions to Lattice's success in 2020.

Company Discretion

Participation in this plan does not constitute a contract of employment with the Company for any specified period of time, nor is it an entitlement to participate in any other program or any future program. The Compensation Committee reserves the right to cancel, revise, interpret, and apply this Plan and its provisions and to reduce any amounts payable under its terms at its sole discretion. Changes to the Plan must be in writing. Changes impacting the Executives must be approved by the Compensation Committee. The Company's senior employee of Human Resources, and CEO must approve any exceptions to the Plan.

LATTICE SEMICONDUCTOR CORPORATION

SUBSIDIARIES OF THE REGISTRANT

| | Name | Jurisdiction of Incorporation |
|-----|---|--------------------------------------|
| 1. | Lattice Semiconductor Limited | Bermuda |
| 2. | Lattice Semiconductor (Shanghai) Co. Ltd. | China |
| 3. | Lattice Semiconducteurs SARL | France |
| 4. | Lattice Semiconductor GmbH | Germany |
| 5. | Lattice Semiconductor (India) Pvt. Ltd. | India |
| 6. | Lattice Semiconductor SRL | Italy |
| 7. | Lattice Semiconductor Japan KK | Japan |
| 8. | Lattice Semiconductor Korea Co. Ltd. | Korea |
| 9. | Lattice Semiconductor B.V. | Netherlands |
| 10. | Lattice Semiconductor (PH) Corporation | Philippines |
| 11. | Lattice SG Pte. Ltd. | Singapore |
| 12. | HDMI Licensing, LLC | Delaware, USA |
| 13. | MHL, LLC | Delaware, USA |
| 14. | SiBEAM, Inc. | Delaware, USA |
| 15. | Lattice Connectivity, LLC | Delaware, USA |
| 16. | Lattice Semiconductor International LLC | Delaware, USA |
| 17. | Lattice Semiconductor Operations LLC | Delaware, USA |
| 18. | SPMT, LLC | Delaware, USA |
| 19. | WirelessHD, LLC | Delaware, USA |
| 20. | Lattice Semiconductor UK Limited | United Kingdom |

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the Registration Statements (No. 333-176133, No. 333-182047, No. 333-188455, No. 333-195888, No. 333-220987, No. 333-224933, No. 333-227153, and No. 333-232337) on Form S-8 of Lattice Semiconductor Corporation of our reports dated February 26, 2021, with respect to the consolidated financial statements of Lattice Semiconductor Corporation and the effectiveness of internal control over financial reporting of Lattice Semiconductor Corporation included in this Annual Report (Form 10-K) of Lattice Semiconductor Corporation for the year ended January 2, 2021.

/s/ Ernst & Young LLP

San Jose, California
February 26, 2021

Consent of Independent Registered Public Accounting Firm

The Board of Directors
Lattice Semiconductor Corporation:

We consent to the incorporation by reference in the registration statements (No. 333-176133, No. 333-182047, No. 333-188455, No. 333-195888, No. 333-220987, No. 333-224933, No. 333-227153 and No. 333-232337) on Form S-8 of Lattice Semiconductor Corporation of our report dated February 24, 2020 except for Note 12, as to which the date is February 26, 2021, with respect to the consolidated balance sheets of Lattice Semiconductor Corporation as of December 28, 2019 and December 29, 2018, the related consolidated statements of operations, comprehensive income (loss), stockholders' equity, and cash flows for each of the years in the two-year period ended December 28, 2019, and the related notes, which report appears in the January 2, 2021 annual report on Form 10-K of Lattice Semiconductor Corporation.

Our report refers to a change in the method of accounting for leases.

/s/ KPMG LLP

Portland, Oregon

February 26, 2021

CERTIFICATION

I, James Anderson, certify that:

1. I have reviewed this Annual Report on Form 10-K of Lattice Semiconductor Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 26, 2021

/s/ James Anderson

James Anderson

Chief Executive Officer

CERTIFICATION

I, Sherri Luther, certify that:

1. I have reviewed this Annual Report on Form 10-K of Lattice Semiconductor Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 26, 2021

/s/ Sherri Luther

Sherri Luther

Chief Financial Officer

CERTIFICATION OF CHIEF EXECUTIVE OFFICER PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Lattice Semiconductor Corporation (the Company) on Form 10-K for the year ended January 2, 2021 (the Report), I, James Anderson, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

A signed original of this written statement has been provided to the Company and will be retained by the Company and furnished to the SEC or its staff upon request.

/s/ James Anderson
James Anderson
Chief Executive Officer

Date: February 26, 2021

CERTIFICATION OF CHIEF FINANCIAL OFFICER PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Lattice Semiconductor Corporation (the Company) on Form 10-K for the year ended January 2, 2021 (the Report), I, Sherri Luther, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

A signed original of this written statement has been provided to the Company and will be retained by the Company and furnished to the SEC or its staff upon request.

/s/ Sherri Luther

Sherri Luther
Chief Financial Officer

Date: February 26, 2021