LATTICE SEMICONDUCTOR CORP
Form DEF 14A
April 05, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant x
Filed by a Party other than the Registrant o
Check the appropriate box:

o	Preliminary Proxy Statement
o	**Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
x	Definitive Proxy Statement
o	Definitive Additional Materials
o	Soliciting Material Pursuant to §240.14a-12

Lattice Semiconductor Corporation
(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

x	No fee required.	
o	Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.	
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o	Fee paid previously with preliminary materials.	
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	(1)	Amount Previously Paid:
	(2)	Form, Schedule or Registration Statement No.:
	(3)	Filing Party:
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April 5, 2007

TO OUR STOCKHOLDERS:

You are cordially invited to attend the annual meeting of the stockholders of Lattice Semiconductor Corporation, which will be held on Tuesday, May 1, 2007, at 1:30 p.m., at our corporate headquarters, 5555 NE Moore Court, Hillsboro, Oregon 97124-6421.

The attached Notice of Annual Meeting of Stockholders and Proxy Statement describe the matters to be acted upon at the meeting. Included with the Proxy Statement is a copy of our 2006 Annual Report to Stockholders on Form 10-K. Also included is a proxy card for you to record your vote and a return envelope for your proxy card.

It is important that your shares be represented and voted at the meeting whether or not you plan to attend. Therefore, we urge you to vote your shares by signing and dating the enclosed proxy card and returning it in the envelope provided.

Sincerely,

Stephen A. Skaggs
President and Chief Executive Officer

Whether or not you plan to attend the meeting, please vote your shares by signing and dating the enclosed proxy card and returning it in the envelope provided. If you receive more than one proxy card because you own shares that are registered differently, then please vote all of your shares shown on all of your proxy cards following instructions listed on each of the individual proxy cards. Thank you.

5555 NE Moore Court
Hillsboro, Oregon 97124-6421

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

May 1, 2007

TO OUR STOCKHOLDERS:

The Annual Meeting of Stockholders of Lattice Semiconductor Corporation will be held at our corporate headquarters, 5555 NE Moore Court, Hillsboro, Oregon 97124-6421, on Tuesday, May 1, 2007, at 1:30 p.m., Pacific Time, for the following purposes:

1. To elect two Class III directors, for a term of three years;

2. To approve an amendment to the 2001 Outside Directors Stock Option Plan to increase the number of shares reserved for issuance thereunder from 1,000,000 to 1,200,000 shares;

3. To approve an amendment to the Employee Stock Purchase Plan to increase the number of shares reserved for issuance thereunder from 4,700,000 to 5,500,000 shares;

4. To ratify the appointment of KPMG LLP as our independent registered public accounting firm for the fiscal year ending December 29, 2007; and

5. To transact such other business as may properly come before the meeting.

Only stockholders of record at the close of business on March 20, 2007, are entitled to vote at the meeting or any adjournment thereof.

All stockholders are invited to attend the meeting in person. **Whether or not you plan to attend the meeting, to assure your representation at the meeting, please promptly sign and return the accompanying proxy card in the enclosed return envelope**. Any stockholder of record entitled to vote at the meeting may vote in person at the meeting even if he or she has returned a proxy.

By Order of the Board of Directors
Martin R. Baker
Secretary

Hillsboro, Oregon
April 5, 2007

5555 NE MOORE COURT
HILLSBORO, OREGON 97124-6421

PROXY STATEMENT FOR ANNUAL MEETING OF STOCKHOLDERS

INFORMATION CONCERNING SOLICITATION AND VOTING

General

Our board of directors is soliciting proxies to be used at the 2007 annual meeting of stockholders to be held at our corporate headquarters, 5555 NE Moore Court, Hillsboro, Oregon 97124-6421 on Tuesday, May 1, 2007, at 1:30 p.m., Pacific Time, or at any adjournment thereof.

This proxy statement, the accompanying proxy card and our Annual Report on Form 10-K were mailed on or about April 5, 2007, to all stockholders entitled to vote at the meeting.

Who Can Vote

Record holders of common stock at the close of business on March 20, 2007, may vote at the meeting. On March 20, 2007, there were 114,752,763 shares of common stock outstanding. Each stockholder has one vote for each share of common stock owned as of the record date. The common stock does not have cumulative voting rights.

How To Vote

Stockholders may vote their shares in person by attending the annual meeting. Stockholders may also vote by mail by signing, dating and mailing the enclosed proxy card. The proxy holders will vote your shares in accordance with the instructions on your proxy card. Stockholders who hold their shares through a bank or broker should vote their shares in the manner prescribed by the bank or broker. If you do not specify how to vote your shares on your proxy card, we will vote them (i) for each of the nominees for director named herein, (ii) for approval of an amendment to the 2001 Outside Directors Stock Option Plan, (iii) for approval of an amendment to the Employee Stock Purchase Plan, (iv) for ratification of KPMG LLP as our independent registered public accounting firm for fiscal 2007, and (v) in accordance with the recommendations of our board of directors, or, if no recommendation is given, in the discretion of the proxy holders, on any other business that may properly come before the meeting or any adjournment or adjournments thereof.

Revoking Your Proxy

You may revoke your proxy at any time before it is exercised by:

- sending a written notice of revocation to the Secretary of Lattice Semiconductor Corporation (the Company);
- submitting a properly signed proxy with a later date; or
- voting in person at the meeting.

Quorum; Abstentions; Broker Non-Votes

A majority of the shares of common stock issued and outstanding on March 20, 2007, present in person at the meeting or represented at the meeting by proxy, will constitute a quorum. Shares that are voted FOR , AGAINST , ABSTAIN , or WITHHELD from a proposal are treated as being present at the meeting for purposes of establishing a quorum.

The total number of votes that could be cast at the meeting is the number of votes actually cast plus the number of abstentions. Abstentions are counted as shares present at the meeting for purposes of determining whether a quorum exists and have the effect of a vote against any matter as to which they are specified. Proxies submitted by brokers that do not indicate a vote for some or all of the proposals because they do not have discretionary voting authority and have not received instructions as to how to vote on those proposals (so-called broker non-votes) are counted as present and entitled to vote and are, therefore, included for purposes of determining whether a quorum is present at the annual meeting; however, broker non-votes are not deemed to be votes cast. As a result, broker non-votes are not included in the tabulation of the voting results on the election of directors or issues requiring approval of a majority of the votes cast and, therefore, do not have the effect of votes against the proposal.

PROPOSAL 1: ELECTION OF DIRECTORS

Our board of directors is divided into three classes. Directors are elected to serve staggered three-year terms, such that the term of one class of directors expires each year. Classes consist of two or three directors. Pursuant to action by the nominating and governance committee of the board of directors, the Company will be nominating two Class III directors, named below, at the meeting to serve three-year terms ending in 2010. We will vote your shares as you specify when providing your proxy. If you do not specify how you want your shares voted when you provide your proxy, we will vote them for the election of the nominees listed below. If unforeseen circumstances (such as death or disability) make it necessary for the board of directors to substitute another person for the nominee, we will vote your shares for that other person.

The following table briefly describes the nominees for director and the directors whose terms will continue. Except as otherwise noted, each has served in his principal occupation for at least five years. There are no family relationships among any of our directors or officers.

Nominee	Age	Principal Occupation and Other Directorships	Director Since	Current Term Expires	Class
David E. Coreson	60	Former Senior Vice President of Tektronix, Inc. until June 2004.	2005	2007	III
Gerhard Parker	63	Former Executive Vice President, New Business Group of Intel Corporation until May 2001; member of Board of Directors of Applied Materials Inc. and FEI Company.	2005	2007	III
Continuing Directors					
Patrick S. Jones	62	Private investor since 2001; former Chief Financial Officer of Gemplus SA until April 2001; member of Board of Directors of Genesys SA.	2005	2008	I
Harry A. Merlo	81	President of Merlo Corporation since July 1995; President and Chairman of the Board of Louisiana-Pacific Corporation until June 1995.	1983	2008	I
Stephen A. Skaggs	44	Our Chief Executive Officer since August 2005 and President since October 2003; previously served as Senior Vice President and Chief Financial Officer from August 1996 until October 2003, and as Secretary from August 1996 until August 2005.	2005	2008	I
Daniel S. Hauer	70	Business consultant since November 1998; Chairman of the Board of Epson Electronics America until November 1998.	1987	2009	II
Balaji Krishnamurthy	53	President of LogiStyle since September 2005; former Chairman, President and Chief Executive Officer of Planar Systems, Inc. until September 2005.	2005	2009	II

In January 2006, Mark O. Hatfield, one of our previous Class III directors, left our board of directors. In May 2006, Soo Boon Koh, one of our previous Class II directors, left our board of directors at the end of her term after deciding not to stand for re-election.

Under the terms of our amended and restated bylaws and corporate governance guidelines, which were approved by the board of directors in January 2006, any director appointed by the board of directors to fill future vacancies on the board will be required to stand for election at the first annual stockholders meeting following the director s appointment.

Required Vote

The nominees receiving the highest number of affirmative votes of the votes cast at the meeting on this matter shall be elected as the Class III directors.

THE BOARD OF DIRECTORS RECOMMENDS THAT THE STOCKHOLDERS VOTE FOR THE ELECTION OF DAVID E. CORESON AND GERHARD PARKER AS CLASS III DIRECTORS OF THE COMPANY.

If the election of directors at this annual meeting is uncontested and any director receives a greater number of withheld votes than for votes, then pursuant to our Corporate Governance Policies, such director shall submit a letter of resignation for consideration by the nominating and governance committee. The nominating and governance committee shall recommend to the board the action to be taken with respect to such offer of resignation. Within 120 days of the stockholder meeting, the board shall act with respect to such offer of resignation.

Director Independence

The board has determined that each of the directors, except Mr. Skaggs, is independent within the meaning of the applicable rules and regulations of the Securities and Exchange Commission (SEC) and the director independence standards of The NASDAQ Stock Market, Inc. (NASDAQ), as currently in effect. Furthermore, the board has determined that each of the members of each of the committees of the board is independent under the applicable rules and regulations of the SEC and the director independence standards of NASDAQ, as currently in effect.

Annual Meeting Attendance

Although we do not have a formal policy regarding attendance by members of the board at our annual meetings of stockholders, directors are encouraged to attend. All directors attended the last annual meeting of stockholders.

Board Meetings and Committees

In 2006, the board of directors held a total of seven meetings. The independent directors meet regularly without the presence of management. Mr. Jones, in his capacity as chairman of the board, led meetings of independent directors in 2006. Each of our current directors attended or participated in more than 75% of the aggregate of (i) the total number of meetings of the board of directors and (ii) the total number of meetings held by all committees of the Board on which such director served.

Our board of directors currently has three standing committees: the audit committee, the compensation committee, and the nominating and governance committee. Each of these committees operates under a written charter adopted by the board.

Audit Committee

The Company has a separately designated standing audit committee established in accordance with Section 3(a)(58)(A) of the Securities Exchange Act of 1934, as amended. The audit committee oversees the accounting and financial reporting process and the external audit process of the Company and assists the board of directors in the oversight and monitoring of (i) the integrity of the financial statements of the Company, (ii) the internal accounting and financial controls of the Company, (iii) compliance with legal and regulatory requirements, and (iv) the qualifications, performance, and independence of the Company s independent registered public accounting firm. In this capacity, the audit committee is responsible for appointing, approving the compensation of, and overseeing the work of the independent registered public accounting firm. In addition, the audit committee reviews and approves all work performed by the independent registered public accounting firm. The audit committee meets regularly with management and with our independent registered public accounting firm, which has access to the audit committee without the presence of management representatives.

During 2006, the audit committee was composed of Mr. Jones, Mr. Merlo, Mr. Parker and, for a portion of the year, former director Ms. Koh. The audit committee met five times in 2006. Currently, the committee is composed of Mr. Jones, Mr. Merlo, and Mr. Parker. Our board of directors has determined that both Mr. Jones and Mr. Merlo qualify as audit committee financial experts as this term has been defined under the rules and regulations of the SEC.

The charter of the audit committee is available on our website at the following address:

http://www.latticesemi.com/corporate/investorrelations/governance/index.cfm.

Compensation Committee

The compensation committee evaluates and, subject to obtaining the agreement of all the independent directors, approves our chief executive officer s compensation, including salary, equity, and cash-based variable compensation, approves the compensation of our other executive officers, and reviews succession planning for the chief executive officer position. The committee also administers our equity plans and handles other compensation issues. During 2006, the compensation committee was composed of Mr. Coreson, Mr. Hauer, and Mr. Krishnamurthy. The compensation committee met six times in 2006. Currently, the committee is composed of Mr. Coreson, Mr. Hauer, and Mr. Krishnamurthy.

The charter of the compensation committee is available on our website at the following address:

http://www.latticesemi.com/corporate/investorrelations/governance/index.cfm.

Nominating and Governance Committee

The nominating and governance committee identifies qualified persons to become directors and recommends candidates for all vacant directorships to be filled by the board or by the stockholders, reviews and evaluates the performance of the board of directors and each committee of the board, makes recommendations to the board for nominees to the committees of the board, and oversees compliance with our corporate governance policies. During 2006, the nominating and governance committee was composed of Mr. Jones, Mr. Merlo, and, for a portion of the year, Mr. Coreson. The nominating and governance committee met three times in 2006. Currently, the committee is composed of Mr. Coreson, Mr. Jones, and Mr. Merlo.

The nominating and governance committee believes that each of the Company s directors should have certain minimum personal qualifications, including the following:

- professional competence, expertise, and diversity of background that is useful to the Company;
- the desire and ability to serve as a director, and to devote the time and energy required to fulfill the responsibilities of the position successfully;
- character, judgment, experience, and temperament appropriate for a director; and
- independence, together with personal and professional honesty and integrity of the highest order.

The committee evaluates candidates for nomination on the basis of their individual qualifications, and also on the basis of how such individuals would fill a need on the board of directors. Factors in such determination include:

- the current size and composition of the board;
- the independence of the board and its committees;
- the presence on the board of individuals with expertise in areas useful to the Company;
- the diversity of individuals on the board, including their personal characteristics, experiences, and backgrounds;

- the number of other boards on which the candidate serves; and
- such other factors as the committee or the board consider significant.

The nominating and governance committee will consider candidates for our board of directors suggested by its members, other members of the board of directors, our senior management, individuals personally known to members of our board, and our stockholders. From time to time, the committee may solicit proposals for candidates from interested constituencies, or may use paid third-party search firms to identify candidates. Under the terms of its charter, the committee is obligated to consider in good faith any candidate recommended by one or more of our ten largest unaffiliated stockholders of record, provided that, in the committee s judgment, the candidate satisfies the criteria for board service set forth in the committee s charter. The committee evaluates candidates in the same manner regardless of how such candidates are brought to the attention of the committee.

Stockholders who wish to submit names of candidates for our board of directors for consideration by the nominating and governance committee should do so in writing, addressed to the nominating and governance committee, c/o Secretary, Lattice Semiconductor Corporation, 5555 NE Moore Court, Hillsboro, Oregon 97124-6421, and should include the following information:

- A statement that the writer is a stockholder and is proposing a candidate for consideration by the committee (if the stockholder believes that they are one of our ten largest unaffiliated stockholders, then the stockholder should include language to this effect in their statement);
- The name and contact information for the candidate;
- A statement of the candidate s occupation and background, including education and business experience;
- Information regarding each of the factors listed above, sufficient to enable the committee to evaluate the candidate;
- A statement detailing (i) any relationship or understanding between the candidate and the Company, or any customer, supplier, competitor, or affiliate of the Company; and (ii) any relationship or understanding between the candidate and the stockholder proposing the candidate for consideration, or any affiliate of such stockholder; and
- A statement that the candidate is willing to be considered for nomination by the committee and willing to serve as a director if nominated and elected.

Additional information may be requested by the committee as appropriate.

In addition, our bylaws permit stockholders to nominate individuals to stand for election to our board of directors at an annual stockholders meeting. Stockholders wishing to submit nominations must notify us of their intent to do so on or before the date specified under Stockholder Proposals Other Stockholder Proposals and Director Nominations. Such notice must include the information specified in our bylaws, a copy of which is available from our corporate secretary upon written request.

The charter of the nominating and governance committee is available on our website at the following address:

http://www.latticesemi.com/corporate/investorrelations/governance/index.cfm.

Communications with the Board

Stockholders may communicate with the board of directors by writing to us c/o Secretary, Lattice Semiconductor Corporation, 5555 NE Moore Court, Hillsboro, Oregon 97124-6421. Stockholders who

would like their submission directed to a member of the board of directors may so specify, and the communication will be forwarded, as appropriate.

Audit and Related Fees

On March 13, 2007, the audit committee dismissed PricewaterhouseCoopers LLP as the Company s independent registered public accounting firm, and engaged KPMG LLP as our new independent registered public accounting firm for the fiscal year ending December 29, 2007. The change in the Company s independent registered public accounting firm was reported in a Current Report on Form 8-K filed with the SEC on March 19, 2007. For more information regarding the Company s change in auditors, please see Proposal Four of this proxy statement.

Under its charter the audit committee reviewed and pre-approved all audit and permissible non-audit services performed by PricewaterhouseCoopers LLP as well as the fees charged by PricewaterhouseCoopers LLP for such services. In its review of non-audit services, the audit committee considered whether the provision of such services was compatible with maintaining the independence of PricewaterhouseCoopers LLP. The following table sets forth the aggregate fees billed by PricewaterhouseCoopers LLP in connection with the following services for the fiscal year ended December 30, 2006 and for the fiscal year ended December 31, 2005:

	2006	**2005**
Audit Fees(1)	$ 984,801	$ 852,475
Audit-Related Fees(2)	26,596	64,836
Tax Fees(3)	19,938	4,389
All other fees(4)	1,500	1,500
Total fees	$ 1,032,835	$ 923,200

(1) This category includes fees billed for 2006 and 2005, respectively, for the audit of the annual financial statements included in our Annual Report on Form 10-K, review of the quarterly financial statements included in our quarterly reports on Form 10-Q, audit of our internal controls, issuance of consents and assistance with and review of documents filed with the SEC.

(2) This category includes fees billed for 2006 and 2005, respectively, for services relating to the audit of employee benefit plans, fees for other statutory filings and consultation work.

(3) This category includes fees billed for 2006 and 2005, respectively, for tax compliance, planning, and advice.

(4) This category includes fees billed for 2006 and 2005, respectively, for a subscription to an online technical accounting and auditing research service.

The audit committee has determined that the provision of services rendered above for non-audit services was compatible with maintaining the independence of PricewaterhouseCoopers LLP.

Audit Committee Report

The responsibilities of the audit committee are fully described in the audit committee charter. Management is responsible for maintaining our financial controls and preparing our financial reports. Our independent registered public accounting firm is responsible for performing an independent audit of our consolidated financial statements in accordance with generally accepted auditing standards and for issuing an audit report. The audit committee s responsibility is to execute the audit committee charter and oversee these processes. In fulfilling its responsibilities, the audit committee has reviewed and discussed the audited financial statements contained in our Annual Report on Form 10-K for the year ended December 30, 2006 with management and our independent registered public accounting firm.

The audit committee discussed with our independent registered public accounting firm matters required to be discussed by the Statement on Auditing Standards No. 61, as amended (AICPA, Professional Standards, Vol. 1, AU section 380). In addition, the audit committee discussed with our independent registered public accounting firm their independence from Lattice and our management, including the written disclosures and the letter submitted to the audit committee by our independent registered public accounting firm as required by the Independence Standards Board Standard No. 1 (Independence Standards Board Standard No.1, Independence Discussions with Audit Committees).

Based upon the audit committee s discussions with management and our independent registered public accounting firm and the audit committee s review of the representations of management, the report of our independent registered public accounting firm, and the information referenced above, the audit committee recommended that the board of directors include the audited consolidated financial statements in our Annual Report on Form 10-K for the year ended December 30, 2006, for filing with the Securities and Exchange Commission.

Audit Committee
Patrick S. Jones, Chairman
Harry A. Merlo
Gerhard H. Parker

COMPENSATION DISCUSSION AND ANALYSIS

Overview

Role of the Compensation Committee

The compensation committee, comprised of directors who satisfy the independence requirements of the Nasdaq Stock Market, the Securities and Exchange Commission, and the Internal Revenue Code, reviews, approves, and administers our executive compensation program. The role of the compensation committee is to act for the board of directors to oversee the compensation of our chief executive officer and other executive officers, and to administer the executive officer compensation plans, policies, and programs of the Company. The committee also administers our employee equity incentive plans, and reviews and approves equity grants to our employees.

The compensation committee annually evaluates and, subject to obtaining the agreement of all the independent directors, approves the chief executive officer s compensation, including (a) the annual base salary, (b) the annual cash-based variable compensation program, including the specific goals and target award amounts, (c) equity compensation, (d) any employment agreement, severance arrangement, or change in control agreement/provision, and (e) any other benefits, compensation, or arrangements. The compensation committee reviews and approves corporate goals and objectives relevant to the compensation of the chief executive officer, evaluates his performance in light thereof, and considers other factors related to the performance of the Company, including accomplishment of the Company s long-term business and financial goals.

The compensation committee also annually evaluates and approves for the other executive officers of the Company (a) the annual base salary, (b) the annual cash-based variable compensation program, including the specific goals and target award amounts, (c) equity compensation, (d) any employment agreement, severance arrangement, or change in control agreement/provision, and (e) any other benefits, compensation, or arrangements.

The compensation committee has the authority to retain its own compensation consultants and outside legal, accounting, and other advisors at the Company s expense. Such consultants and advisors report directly to the compensation committee and the committee has the authority to approve the fees payable to such advisors by the Company and other terms of retention. Beginning in 2005, the compensation committee retained a compensation consulting firm, Compensia, Inc., and has considered such firm s input in evaluating compensation trends and best practices, identifying peer group companies and benchmarking compensation data, and other aspects of administering the Company s executive compensation program.

Role of Management in Executive Compensation Components

Substantial changes in the senior management of our Company occurred during 2005. Stephen A. Skaggs, then our president, was named interim chief executive officer on June 14, 2005. On August 8, 2005, the board appointed Mr. Skaggs as our chief executive officer. At the same time, we adopted changes concerning many aspects of executive compensation, and strengthened the role of the compensation committee.

While consideration of executive compensation is an interactive process involving multiple parties, the principal role of Company management in decisions involving executive compensation is primarily to support the activities of the compensation committee. The chief executive officer and the chief financial officer direct the process by which historical compensation data is gathered and provided to the compensation committee. In addition, they facilitate the coordination of human resource management, accounting, and legal input in enabling the compensation committee to reach informed decisions. The chief executive officer and the chief financial officer are also primarily responsible for developing a proposed annual business plan and presenting the plan to the board of directors. This annual plan, as approved by the board, forms the basis for measurement of the performance of management in our cash-based variable compensation plans. The chief executive officer and the chief financial officer are also involved in making proposals to the compensation committee concerning potential changes in the compensation of individual executives and potential changes in our overall compensation programs. The compensation committee considers, but is not bound to and does not always accept, management s recommendations with respect to executive compensation.

The chief executive officer and the chief financial officer attend some of the compensation committee s meetings, but the compensation committee also regularly holds executive sessions not attended by any members of management or non-independent directors. The compensation committee discusses the chief executive officer s compensation package with him, but makes decisions with respect to his compensation without him present.

Compensation Philosophy

We believe that executive compensation arrangements and practices should be clear and unambiguous, and should be fully approved by the compensation committee and disclosed to stockholders. We endeavor to attract and retain above average employees and to motivate our employees to exert an above average effort and to deliver above average results. In order to accomplish these goals we adhere to the following compensation philosophies:

- We pay base salaries that are competitive and consistent with the marketplace.

- We maintain variable, performance-based compensation programs that are designed to (i) encourage and recognize superior contributions, and (ii) pay above average total cash compensation to those employees who make superior contributions. We believe our senior management has the highest potential to impact our business results and thus should be eligible for the highest percentage of variable compensation. We also believe that senior management performance should be measured primarily by business results that are linked to stockholder interests. On the other hand, we believe that the contributions of junior level employees can be best measured by individual performance, competency, or effort and, by definition, can be partially disconnected from our business results.

- We maintain equity based compensation programs to link the interests of our employees with those of the stockholders.

- We maintain comprehensive health and insurance benefits to provide our employees and their families a financial safety net. We believe this safety net should be consistent with the employee s overall level of compensation and thus we offer our senior management additional insurance benefits.

- We strive to maintain an egalitarian culture without entitlements or artificial class distinctions between our employees. We believe that senior management should be held to the same standards as other employees. Therefore, we offer only limited enhanced benefits to senior management, and only with a direct business purpose.

We believe that cash-based variable compensation of executive officers should be directly linked to our short-term performance, while longer-term incentives, such as equity compensation, should be aligned with the objective of enhancing stockholder value over the long term. We believe the use of equity compensation strongly links the interests of Company management to the interests of our stockholders.

In addition, we believe that our total compensation packages must be competitive with other companies in our industry to ensure that we can continue to attract, retain, and motivate the senior executives whom we believe are critical to our long-term success. We believe that we can accomplish our executive compensation goals while maintaining appropriate levels of internal equity, both between the chief executive officer and other executives, and between executives and other non-executive employees.

Components of Executive Compensation

The principal components of executive compensation are base salary, annual cash-based variable compensation, and equity grants.

Base Salary

Base salaries are set based on competitive factors and the historic salary structure for various levels of responsibility within the Company. The compensation committee periodically conducts surveys of companies in our industry in order to determine whether our executive base salaries are in a competitive range. Generally, salaries are set in the middle of this range. Base salaries for executive officers were last revised in 2005.

Cash-based Variable Compensation

Our 2005 Executive Bonus Plan was adopted in August 2005 and applied through the end of 2005, and replaced the Executive Incentive Plan that had previously been used to determine cash-based variable compensation awards made to our executives. Under the terms of our 2005 Executive Bonus Plan, our executive officers and other vice presidents had defined target cash awards. For each of our executive officers and certain vice presidents specified in the plan, 50% of their target cash award was payable if they remained employed by the Company as of December 30, 2005. We decided to include a retention component in the target award due to the substantial and sudden changes that occurred in senior management of our Company during 2005. More recent cash-based variable compensation plans do not include a retention component. For each of our executive officers and the other vice presidents specified in the plan, the remaining 50% of the target award was dependent on the achievement of business objectives and milestones relating to product development, process technology qualification, new product design-ins, new product revenue, and total revenue. This plan reflected our belief that the annual cash-based variable compensation of our executives should be dependent on well-defined goals that complement the Company s business plan objectives. The compensation committee retained the power to withhold or delay payment of awards due to business conditions or other relevant considerations. Payments were made pursuant to this plan in February 2006.

In December 2005, the compensation committee and the board of directors approved the 2006 Executive Bonus Plan (the 2006 Plan), in order to establish a mechanism for determining executive cash-based variable compensation awards for the 2006 fiscal year. Our chief executive officer and other executive officers, as well as other members of senior management, as recommended by the chief executive officer and approved by the compensation committee, were eligible to participate in the 2006 Plan. Under the terms of this plan, the cash award for each participant was based both on Company performance, as measured by achievement of revenue and operating income performance goals approved by the Board prior to the commencement of the plan year, and individual performance. The revenue and operating income goals were equally weighted in calculating awards, and are considered by the compensation committee to be a more direct way to measure Company performance than the use of multiple business objectives and milestones. The compensation committee determined the individual performance of the chief executive officer, and the chief executive officer determined the individual performance of the other participants. For each participant, a specified minimum achievement against the revenue and operating income objectives was required to be eligible for any award. The compensation committee approved a target cash award and a maximum cash award for each participant, based on the participant s annual salary. The target award for our chief executive officer was 70% of base salary, and the maximum was

200% of base salary. For other participants, target awards ranged from 20% to 40% of base salary, and the maximum awards ranged from 50% to 100% of base salary. Based upon the achievement of performance goals, the amounts payable pursuant to the 2006 Plan to eligible participants, including executive officers, exceeded the targeted awards. After discussion with the Company s management, the compensation committee exercised its authority under the terms of the 2006 Plan to reduce the cash awards that were to be made to eligible participants, including all executive officers, as calculated pursuant to the terms of the plan, to amounts that were closer to the targeted cash awards than the amounts calculated pursuant to the terms of the 2006 Plan. Payments were made pursuant to the 2006 Plan in February 2007, and are disclosed in the Summary Compensation Table under the Non-Equity Incentive Plan Compensation column.

In December 2006, the compensation committee, having obtained the approval of the independent members of the board of directors with respect to the chief executive officer, approved the 2007 Executive Variable Compensation Plan (the 2007 Plan). The chief executive officer, other executive officers, and other members of senior management, including vice presidents and director-level employees as nominated by the chief executive officer and approved by the compensation committee, are eligible to participate in the 2007 Plan.

Under the 2007 Plan, individual cash awards will be based both on Company performance, as measured by achievement of revenue and operating income performance goals approved by the board of directors prior to the commencement of the plan year, and individual performance. The revenue and operating income goals will be equally weighted in calculating awards under the 2007 Plan. The compensation committee will determine the individual performance of the chief executive officer, and the chief executive officer will determine the individual performance of the other participants. For each participant, a specified minimum achievement against the revenue and operating income objectives is required to be eligible for any award.

The compensation committee approved a target cash award and a maximum cash award for each participant, based on the participant s annual base salary. As set in December 2006, the target cash awards range from 7.5% of base salary for certain director-level employees to 70% of base salary for the chief executive officer. In February 2007, the compensation committee, having obtained the agreement of the independent directors, increased the target cash award for the chief executive officer to 90% of base salary. The maximum cash awards are two times the target awards for director-level employees and 2.5 times the target awards for vice presidents. The chief executive officer s maximum cash award is limited to 200% of his base salary. The current target cash award and maximum cash award for each of the Company s executive officers participating in the 2007 Plan is as follows:

Executive Officer	**Target Cash Award**	**Maximum Cash Award**
Stephen A. Skaggs, President and Chief Executive Officer	$ 360,000	$ 800,000
Jan Johannessen, Senior Vice President and Chief Financial Officer	$ 104,838	$ 262,096
Steve Donovan, Corporate Vice President, Sales	$ 68,135	$ 170,336
Martin R. Baker, Corporate Vice President, General Counsel and Secretary	$ 67,409	$ 168,524

If the Company is not profitable on an operating basis (excluding intangible asset amortization and other board-approved extraordinary expense items), there will be no payments under the 2007 Plan. Under the 2007 Plan, the aggregate target cash awards for all participants totals approximately $2.0 million, and the aggregate maximum cash award for all participants totals approximately $4.6 million. Because disclosure of specific metrics that are used to measure performance under the 2007 Plan would give competitors insights into our financial models and strategic market analysis, we are not disclosing the specific revenue and operating income levels that must be achieved in order for cash awards to be earned. The compensation committee and Company management believe that it will be challenging for the Company s named executive officers to achieve performance levels such that the target cash awards will be earned for fiscal year 2007, and extremely difficult to achieve performance levels triggering the maximum cash awards.

Equity Incentive Plans

The principal equity component of executive compensation historically has been our employee stock option program. Stock options are generally granted when an executive joins us and on an annual basis thereafter under a replenishment program. Initial stock option grants vest over a period of four years. The purpose of the annual replenishment program is to ensure that our executives always have options that vest in increments over a subsequent four-year period. Stock options are also occasionally granted for promotions or other special achievements. Stock options provide a means of retention and motivation for our executives and also align their interests with long-term stock price appreciation.

All stock option grants have a per share exercise price equal to the fair market value of our stock on the date of grant. The Company has not granted, nor does it intend in the future to grant, equity-based compensation awards (stock options and/or restricted stock units) to executives in anticipation of the release of material nonpublic information that is likely to result in changes to the price of our stock, such as a significant positive or negative earnings announcement. Similarly, the Company has not timed, nor does it intend in the future to time, the release of material nonpublic information based on equity award grant dates.

In February 2007, the compensation committee approved grants of restricted stock units, or RSUs, to the Company s executive officers other than our chief executive officer, and, upon obtaining the agreement of all independent directors, approved a grant of RSUs to our chief executive officer.

The grants of RSUs are part of an overall revision of the Company s equity compensation practices undertaken by the compensation committee, which in light of accounting changes and changes in competitive compensation practices, has moved away from granting solely stock options in favor of a blend of options and RSUs. In addition, the compensation committee has, in part, tied the number of shares to be granted in a given year to officers, including executive officers, to the Company s performance to its annual plan. In order to implement the alignment of officer equity incentive grants to annual plan performance, the timing of these grants has been moved from the regularly scheduled board meeting occurring in the Company s third fiscal quarter to the regularly scheduled board meeting occurring in the first fiscal quarter. In addition, in order to assure that executive officers receive equity incentive compensation only when our stockholders also benefit, the vesting of RSUs granted to executive officers is contingent upon certain annual appreciation in the Company s stock price.

Executives are also eligible to participate in a payroll deduction employee stock purchase plan. Under this plan, available to all domestic employees, Company stock may be purchased at 85% of the fair market value at the beginning or end of a six-month offering period, whichever is less, provided that the per share purchase price is not less than the book value of the Company s common stock on the purchase date (up to a maximum of $25,000 worth of stock per calendar year or 10% of salary, whichever is less).

Broad-based Compensation Plans

Executives also participate in our profit sharing plan. Under this plan, a specified percentage of operating income, excluding charges associated with one-time in-process research and development and amortization of intangible assets, is distributed among all domestic employees based on tenure. This distribution is contingent upon the Company achieving a threshold level of profitability. During 2006, no distributions were made under our profit sharing plan. Other elements of executive compensation include participation in a broad-based life and disability insurance program, broad-based medical benefits, and the ability to defer compensation pursuant to a broad-based 401(k) plan. Discretionary contributions to the 401(k) plan by the Company were reinstituted in 2006 with the Company matching contributions up to a limit of $1,500 per employee. The Company s 401(k) matching contribution was increased to a maximum of $3,000 per employee for 2007. Matching contributions vest after four years of employment; thus, all executive officers are fully vested in the Company s matching contributions. The Company does not maintain a pension plan or any other defined benefit retirement plans.

Other Executive Benefit Arrangements

Executive officers and certain other members of senior management are eligible to defer compensation pursuant to an executive deferred compensation plan. The deferred compensation plan is offered to higher level employees in order to allow them to defer more compensation than they would otherwise be permitted to defer under a tax-qualified retirement plan, such as our 401(k) plan. No Company contributions are made to the executive deferred compensation plan, and no guaranteed rates of return or other above-market investment alternatives are made available under the plan.

The Company provides certain supplemental life and disability insurance coverage to executive officers and certain other members of senior management. Because the Company negotiates these insurance arrangements on a bulk basis, such insurance coverage, whether issued on a group basis or individually underwritten, is obtained by the Company at rates that are likely to be better than those obtainable by individuals seeking comparable insurance coverage on their own. The premiums paid by the Company for such supplemental insurance are considered a taxable benefit to the employee, and the Company makes payments on behalf of the executive officers and such other members of senior management for the estimated effect of taxes on such premium payments.

Employment Agreements

In August 2005, the Company entered into an employment agreement with its chief executive officer. The agreement provides for at-will employment and sets forth the basic terms of the chief executive officer s compensation package, including base salary, potential non-equity incentive compensation, equity compensation, and severance arrangements. The agreement was the result of negotiations between Mr. Skaggs, as represented by independent counsel whose fees were paid by the Company up to a cap of $20,000, and the independent members of our board of directors, principally acting through Mr. Jones, the chairman of the board, as represented by outside counsel for the Company. Under the terms of the agreement, the board of directors may terminate the employment of the chief executive officer with or without cause (as defined in the employment agreement) by giving 30 days advance written notice. In turn, the chief executive officer may also terminate his employment by giving the Company 30 days advance written notice.

If the board of directors terminates the chief executive officer s employment without cause or if the chief executive officer terminates his employment with good reason (as defined in the employment agreement), then he will be entitled to receive certain severance benefits. In addition, if the chief executive officer is terminated without cause or terminates his employment with good reason within 24 months of a change in control (as defined in the employment agreement), he will receive certain severance benefits. For more information regarding these severance benefits, please see the section of this proxy statement entitled Potential Payments Upon Termination or Change-In-Control . All severance payments are conditioned upon the execution by the chief executive officer of a release of claims against the Company and his compliance with certain obligations owed to the Company under his employment agreement.

In November 2005, the other executive officers and certain other members of senior management also entered into similar employment agreements with the Company. These agreements outlined the basic terms of each such person s compensation package. In addition, these agreements provide for certain severance benefits to be paid to such executive officers and other officers under the same conditions that such benefits would be required to be paid under the chief executive officer s employment agreement. For more information regarding these severance benefits payable to our executive officers, please see the section of this proxy statement entitled Potential Payments Upon Termination or Change-In-Control . All severance payments are conditioned upon the execution by the recipient of the payment of a release of claims against the Company and his compliance with certain obligations owed to the Company under his employment agreement.

Accounting and Tax Considerations

The compensation committee generally takes into consideration the accounting and tax effects of each component of compensation when establishing the compensation programs, practices and packages offered to the Company s executive officers and aims to keep the compensation expenses associated with such programs, practices and packages within reasonable levels.

Under Section 162(m) of the Internal Revenue Code and related regulations of the Internal Revenue Service, the Company generally receives a federal income tax deduction for compensation paid to our five most highly paid executive officers only if the compensation is less than $1 million during any year or is performance-based under Section 162(m). Our 1996 Stock Incentive Plan and our 2001 Stock Plan were both designed to permit our compensation committee to grant stock options and other equity compensation awards that are performance-based and thus fully tax-deductible to the Company.

The cash compensation paid to our chief executive officer and our four other named executive officers was less than $1 million dollars per person in 2006, and, thus, was fully deductible to the Company. However, we may from time to time pay compensation to our executive officers that may not be deductible when, for example, we believe such compensation is appropriate and in the best interests of the stockholders, after taking into consideration changing business conditions and/or the executive s performance.

Other than the tax gross-up for our chief executive officer, limited to $1 million and described below in the section entitled Potential Payments Upon Termination or Change-in-Control, we have not provided any other executive officer or director with a gross-up or other reimbursement for tax amounts the executive might pay pursuant to Section 280G or Section 409A of the Internal Revenue Code. Section 280G of the Code provides that executives (and directors who hold significant amounts of our stock) could be subject to significant additional taxes if they receive payments or benefits in connection with a change in control of the Company that exceeds certain limits, and that the Company or its successor could lose a deduction on the amounts subject to the additional tax. Section 409A also imposes additional significant taxes in the event that an executive officer receives deferred compensation that does not meet the requirements of Section 409A. To assist in the avoidance of additional tax under Section 409A, the Company has administered all of its compensation arrangements in a manner intended to comply with the applicable Section 409A requirements.

Beginning on January 1, 2006, the Company began accounting for stock-based awards to our employees in accordance with the requirements of FAS 123R. As described above, given the impact of FAS 123R, the Company has determined that it was in the best interests of the Company and its stockholders to grant a combination of stock options and RSUs on a going-forward basis.

Chief Executive Officer Performance and Compensation

The compensation committee reviews the performance of our chief executive officer, Stephen A. Skaggs, based upon the compensation philosophy and specific compensation components described above. In 2005, in connection with his promotion to chief executive officer and the resulting increase in responsibility, Mr. Skaggs base salary was set at $400,000 per year. Mr. Skaggs base salary has not changed since 2005. In February 2007, Mr. Skaggs received a cash variable compensation award of $300,000, based upon the Company s performance against defined goals, pursuant to the 2006 Executive Bonus Plan. In addition, the compensation committee, having obtained the agreement of the independent directors, increased the target cash award for Mr. Skaggs under the 2007 Executive Variable Compensation Plan from 70% to 90% of his base salary. The compensation committee took this action in lieu of changing Mr. Skaggs base salary. The compensation committee considered in its decision comparison compensation data it had received from its compensation consultant, Compensia, and the compensation committee s view that a greater percentage of the CEO s overall compensation package should be tied to Company performance. In addition, pursuant to our philosophy of retaining and motivating our executives and aligning their interests with long-term stock appreciation, Mr. Skaggs received a stock option grant in 2006, and received stock option and restricted stock unit grants in 2007. In determining Mr. Skaggs compensation, the compensation committee considered information provided by our compensation consulting firm regarding compensation packages for chief executive officers at comparable companies, and Mr. Skaggs performance as chief executive officer.

In determining the compensation package for the chief executive officer and the Company s other named executive officers, the compensation committee considered all components of the officers compensation. Based on the factors discussed above, the compensation committee determined that the total compensation of the chief executive officer and the other named executive officers of the Company, including the potential payouts in the case of severance and change of control arrangements, were reasonable and not excessive.

SUMMARY COMPENSATION TABLE

The following table sets forth information concerning compensation for the fiscal year ended December 30, 2006 for our named executive officers, which includes required disclosure related to our CEO, our CFO, our two other executive officers and a former executive officer for whom disclosure would have been required under SEC rules had he been serving as an executive officer as of December 30, 2006.

Name	Year	Salary ($)	Bonus ($)	Stock Awards ($)	Option Awards ($)(2)	Non-Equity Incentive Plan Compensation ($)(3)	Change in Pension Value and Nonqualified Deferred Compensation Earnings ($)(4)	All Other Compensation ($)(5)	Total ($)
Skaggs, Stephen A.	2006	399,996	0	0	480,626	300,000	0	12,295	1,192,917
President & CEO									
Johannessen, Jan	2006	262,092	1,000 (1)	0	116,391	115,000	0	6,482	500,965
Senior VP & CFO									
Donovan, Stephen M.	2006	227,112	0	0	88,344	65,000	0	12,787	393,243
Corporate VP, Sales									
Baker, Martin R.	2006	222,107	0	0	62,000	73,330	0	13,087	370,524
Corporate VP & General									
Counsel									
Barone, Frank J.	2006	0	0	0	0	0	0	274,710	274,710
Former Corporate VP,									
Product Operations									

(1) Mr. Johannessen was awarded a $1,000 bonus in accordance with a Company policy that awards a bonus in such amount for all employees that have been employed with the Company for five years.

(2) The amounts provided in this column represent the compensation cost calculated in accordance with FAS 123R with respect to option awards granted in previous fiscal years and in the fiscal year ended December 30, 2006. The full grant date fair value of the awards granted to each director in the fiscal year ended December 30, 2006, as computed in accordance with FAS 123R, is provided in the Grants of Plan-Based Awards table hereafter. Stock options granted prior to and up until January 2006 have 10-year terms and generally vest over a four-year employment period from the date of grant. Stock options granted after January 2006 have seven-year terms and generally vest over a four-year employment period from the date of grant. The discussion of the assumptions used for purposes of calculation of stock-based compensation expense that appears in Note 11 in the Notes to Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended December 30, 2006 is incorporated herein by reference. In calculating these amounts as required by the SEC, no estimates were made for forfeitures. Mr. Barone, who terminated his employment with the Company on January 1, 2006, forfeited an aggregate of 63,438 stock options on the date of his termination. An additional 126,335 outstanding but unexercised stock options held by Mr. Barone expired 90 days after Mr. Barone s termination. The remaining 285,384 outstanding but unexercised stock options held by Mr. Barone as of the end of our fiscal year, December 30, 2006, expired by their terms on January 1, 2007.

(3) The compensation committee of the board of directors approved payments under the 2006 Executive Bonus Plan in February 2007. The committee approved cash awards of $300,000, $115,000, $65,000, and $73,330 to Mr. Skaggs, Mr. Johannessen, Mr. Donovan, and Mr. Baker, respectively, at that time.

(4) The Company does not pay above-market earnings on deferred compensation. Thus, no amounts are reportable in this column for deferred compensation.

(5) Additional information regarding the amounts provided in this column is provided in the All Other Compensation Table that follows this table.

ALL OTHER COMPENSATION TABLE

The following table sets forth information concerning items included in the All Other Compensation column of the Summary Compensation Table for the fiscal year ended December 30, 2006.

Name	Year	Supplemental Life Insurance Premiums ($)	Supplemental Disability Insurance Premiums ($)	Tax Reimbursements for Supplemental Life and Supplemental Disability Insurance Premiums ($)(1)	Company Contributions to Company 401(k) Plan ($)	Severance Payments/ Accruals ($)	Total ($)
Skaggs, Stephen A. President & CEO	2006	771	4,543	5,481	1,500	0	12,295
Johannessen, Jan Senior VP & CFO	2006	1,643	1,651	3,188	0	0	6,482
Donovan, Stephen M. Corporate VP, Sales	2006	2,473	3,095	5,909	1,310	0	12,787
Baker, Martin R. Corporate VP & General Counsel	2006	2,453	3,290	5,844	1,500	0	13,087
Barone, Frank J. Former Corporate VP, Product Operations	2006	0	0	2,896	0	271,814 (2)	274,710

(1) Amounts provided in this column include reimbursement for taxes on supplemental life and supplemental disability insurance premiums for the fiscal year ended December 30, 2006 (identified below as the 2006 amount), as well as an additional amount paid in 2006 to correct an error in the reimbursement for taxes on supplemental life and supplemental disability insurance premiums for the fiscal year ended December 31, 2005 (identified below as the 2005 amount). The amounts for each executive officer are as follows: Mr. Skaggs $4,427 (2006), $1,053 (2005); Mr. Johannessen $2,745 (2006), $443 (2005); Mr. Donovan $4,639 (2006), $1,270 (2005); Mr. Baker $4,786 (2006), $1,059 (2005); and Mr. Barone, $2,896 (2005).

(2) Includes $242,019, equal to nine months base salary, paid to Mr. Barone in connection with Mr. Barone s participation in the Company s Voluntary Separation Program, which was initiated in connection with the Company s October 2005 restructuring; $6,868 paid to Mr. Barone for payment of health insurance premiums; and $22,927 paid to Mr. Barone in December 2005 for accrued unpaid vacation.

GRANTS OF PLAN-BASED AWARDS

The following table sets forth information regarding plan-based awards granted during the fiscal year ended December 30, 2006 to each of our executive officers listed in the Summary Compensation Table.

Name	Grant Date	Estimated Future Payouts Under Non-Equity Incentive Plan Awards Threshold ($)	Target ($)(1)	Maximum ($)(1)	Estimated Future Payouts Under Equity Incentive Plan Awards Threshold (#)	Target (#)	Maximum (#)	All Other Stock Awards: Number of Shares of Stock or Units (#)	All Other Option Awards: Number of Securities Underlying Options (#)	Exercise or Base Price of Option Awards ($/Sh)	Grant Date Fair Value of Stock and Option Awards ($)
Skaggs, Stephen A. President & CEO	08/1/2006	0	360,000	800,000	0	0	0	0	300,000	5.63	900,030
Johannessen, Jan Senior VP & CFO	08/1/2006	0	104,838	262,096	0	0	0	0	110,000	5.63	330,011
Donovan, Stephen M. Corporate VP, Sales	08/1/2006	0	68,135	170,336	0	0	0	0	50,000	5.63	150,005
Baker, Martin R. Corporate VP & General Counsel	08/1/2006	0	67,409	168,524	0	0	0	0	50,000	5.63	150,005
Barone, Frank J. Former Corporate VP, Product Operations											

(1) On December 5, 2006, the compensation committee of the board of directors, having obtained the approval of the independent members of the Company s board of directors with respect to the chief executive officer, approved the 2007 Executive Variable Compensation Plan. The Company s chief executive officer, executive officers, and other members of senior management, including vice presidents and director-level employees as nominated by the chief executive officer and approved by the compensation committee, are eligible to participate in this plan. The cash awards for each participant will be based both on the Company s performance, as measured by achievement of revenue and operating income performance goals approved by the board prior to the commencement of the plan year, and individual performance. The revenue and operating income goals will be equally weighted in calculating cash awards under the plan. The compensation committee will determine the individual performance of the chief executive officer, and the chief executive officer will determine the individual performance of the other participants. For each participant, a specified minimum achievement against the revenue and operating income objectives is required for any payout. The compensation committee approved a target cash award and a maximum cash award for each participant, based on the participant s annual salary. The target cash awards approved on December 5, 2006 by the compensation committee ranged from 7.5% of salary for certain director-level employees to 70% of salary for the CEO. On February 6, 2007, the compensation committee, having obtained the agreement of the independent directors, revised the target cash award for the Company s chief executive officer from 70% to 90% of salary, thereby changing his target cash award from $280,000 to $360,000. The CEO s maximum cash award is limited to 200% of his salary. If the Company is not profitable on an operating basis (non-GAAP, excluding intangible asset amortization and other board-approved extraordinary expense items), there will be no payments under this plan.

OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END TABLE

The following table sets forth information with respect to all unexercised options as of the fiscal year end, December 30, 2006, that have been previously awarded to the executive officers named above.

	Option Awards				Stock Awards			
Name	Number of Securities Underlying Unexercised Options (#) Exercisable	**Number of Securities Underlying Unexercised Options (#) Unexercisable**	**Option Exercise Price ($)**	**Option Expiration Date**	**Number of Shares or Units of Stock That Have Not Vested (#)**	**Market Value of Shares or Units of Stock That Have Not Vested ($)**	**Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#)**	**Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested ($)**
Skaggs, Stephen A.	140,000.00 (1)	0	7.8750	08/10/2008	0	0	0	0
President & CEO	90,000.00 (2)	0	7.7500	11/10/2008	0	0	0	0
	160,000.00 (3)	0	5.9200	08/06/2012	0	0	0	0
	357,086.00 (4)	0	8.2100	09/18/2013	0	0	0	0
	140,000.00 (5)	0	7.2800	10/28/2013	0	0	0	0
	100,000.00 (5)	0	7.2800	10/28/2013	0	0	0	0
	129,375.00 (6)	100,625.00 (6)	4.4900	08/10/2014	0	0	0	0
	203,125.00 (7)	446,875.00 (7)	4.5600	08/09/2015	0	0	0	0
	18,750.00 (8)	281,250.00 (8)	5.6300	08/01/2013	0	0	0	0
Johannessen, Jan	30,000.00 (3)	0	5.9200	08/06/2012	0	0	0	0
Senior VP & CFO	91,429.00 (4)	0	8.2100	09/18/2013	0	0	0	0
	25,000.00 (5)	0	7.2800	10/28/2013	0	0	0	0
	40,000.00 (5)	0	7.2800	10/28/2013	0	0	0	0
	56,250.00 (6)	43,750.00 (6)	4.4900	08/10/2014	0	0	0	0
	31,250.00 (7)	68,750.00 (7)	4.5600	08/09/2015	0	0	0	0
	6,875.00 (8)	103,125.00 (8)	5.6300	08/01/2013	0	0	0	0
Donovan, Stephen M.	40,000.00 (1)	0	7.8750	08/10/2008	0	0	0	0
Corporate VP, Sales	80,000.00 (2)	0	7.7500	11/10/2008	0	0	0	0
	160,000.00 (2)	0	7.7500	11/10/2008	0	0	0	0
	70,000.00 (3)	0	5.9200	08/06/2012	0	0	0	0
	106,123.00 (4)	0	8.2100	09/18/2013	0	0	0	0
	50,000.00 (5)	0	7.2800	10/28/2013	0	0	0	0
	33,750.00 (6)	26,250.00 (6)	4.4900	08/10/2014	0	0	0	0
	14,062.50 (7)	30,937.50 (7)	4.5600	08/09/2015	0	0	0	0
	3,125.00 (8)	46,875.00 (8)	5.6300	08/01/2013	0	0	0	0
Baker, Martin R.	40,000.00 (1)	0	7.8750	08/10/2008	0	0	0	0
Corporate VP &	160,000.00 (2)	0	7.7500	11/10/2008	0	0	0	0
General Counsel	40,000.00 (3)	0	5.9200	08/06/2012	0	0	0	0
	106,599.00 (4)	0	8.2100	09/18/2013	0	0	0	0
	35,000.00 (5)	0	7.2800	10/28/2013	0	0	0	0
	19,687.50 (6)	15,312.50 (6)	4.4900	08/10/2014	0	0	0	0
	14,062.50 (7)	30,937.50 (7)	4.5600	08/09/2015	0	0	0	0
	3,125.00 (8)	46,875.00 (8)	5.6300	08/01/2013	0	0	0	0
Barone, Frank J.	126,836.00 (9)	0	9.6500	04/08/2009 (12)	0	0	0	0
Former Corporate.VP,	63,420.00 (10)	0	9.6500	04/08/2009 (13)	0	0	0	0
Product Operations	95,128.00 (11)	0	11.1625	06/08/2009 (14)	0	0	0	0

(1) These stock options were granted on August 10, 1998. The options vested at the rate of 6.25% of the total option shares as of three months from the grant date, and at the rate of 6.25% of the total option shares as of the end of each three-month period thereafter.

(2) These stock options were granted on November 10, 1998. The options vested at the rate of 6.25% of the total option shares as of three months from the grant date, and at the rate of 6.25% of the total option shares as of the end of each three-month period thereafter.

(3) These stock options were granted on August 6, 2002. The options vested at the rate of 6.25% of the total option shares as of three months from the grant date, and at the rate of 6.25% of the total option shares as of the end of each three-month period thereafter.

(4) These stock options were granted on September 18, 2003 as part of an option exchange program in which new options were granted in exchange for other previously granted stock options that were canceled. The options vested at the rate of 12.5% of the total option shares as of three months from the grant date, and at the rate of 12.5% of the total option shares as of the end of each three-month period thereafter.

(5) These stock options were granted on October 28, 2003. The options vested at the rate of 6.25% of the total option shares as of three months from the grant date, and at the rate of 6.25% of the total option shares as of the end of each three-month period thereafter. Subsequently, the Company s board of directors approved full vesting acceleration for these options in December 2005.

(6) These stock options were granted on August 10, 2004. The options vest at the rate of 6.25% of the total option shares as of three months from the grant date, and at the rate of 6.25% of the total option shares as of the end of each three-month period thereafter.

(7) These stock options were granted on August 9, 2005. The options vest at the rate of 6.25% of the total option shares as of three months from the grant date, and at the rate of 6.25% of the total option shares as of the end of each three-month period thereafter.

(8) These stock options were granted on August 1, 2006. The options vest at the rate of 6.25% of the total option shares as of three months from the grant date, and at the rate of 6.25% of the total option shares as of the end of each three-month period thereafter.

(9) These stock options were granted on April 8, 1999 pursuant to the terms of a stock option plan adopted by Vantis Corporation, which the Company acquired on June 15, 1999. The options vested at the rate of 25% of the total option shares as of the date of grant, 25% of the total option shares as of August 15, 1999, 25% of the total option shares as of August 15, 2000, and 25% of the total option shares as of August 15, 2001.

(10) These stock options were granted on April 8, 1999 pursuant to the terms of a stock option plan adopted by Vantis Corporation, which the Company acquired on June 15, 1999. The options vested at the rate of 33.33% of the total option shares as of August 15, 1999, 33.33% of the total option shares as of August 15, 2000, and 33.33% of the total option shares as of August 15, 2001.

(11) These stock options were granted on June 8, 1999 pursuant to the terms of a stock option plan adopted by Vantis Corporation, which the Company acquired on June 15, 1999. The options vested at the rate of 25% of the total option shares as of one year from the grant date, and at the rate of 25% of the total option shares as of the end of each one-year period thereafter.

(12) These stock options had a term of 10 years from the date of grant, and, under the terms of the stock option plan under which they were granted, exercise of stock options was permitted for a period of one year following the optionee s termination of employment. Mr. Barone terminated his employment with the Company on January 1, 2006. Accordingly, these stock options expired on January 1, 2007.

(13) These stock options had a term of 10 years from the date of grant, and, under the terms of the stock option plan under which they were granted, exercise of stock options was permitted for a period of one year following the optionee s termination of employment. Mr. Barone terminated his employment with the Company on January 1, 2006. Accordingly, these stock options expired on January 1, 2007.

(14) These stock options had a term of 10 years from the date of grant, and, under the terms of the stock option plan under which they were granted, exercise of stock options was permitted for a period of one year following the optionee s termination of employment. Mr. Barone terminated his employment with the Company on January 1, 2006. Accordingly, these stock options expired on January 1, 2007.

OPTION EXERCISES AND STOCK VESTED TABLE

The following table sets forth information for the fiscal year ended December 30, 2006 with respect to the options exercised, and the number of shares acquired on vesting, for the executive officers named above.

Name	Option Awards Number of Shares Acquired on Exercise (#)	Value Realized on Exercise ($)	Stock Awards Number of Shares Acquired on Vesting (#)	Value Realized on Vesting ($)
Skaggs, Stephen A. President & CEO	0	0	0	0
Johannessen, Jan Senior VP & CFO	0	0	0	0
Donovan, Stephen M. Corporate VP, Sales	0	0	0	0
Baker, Martin R. Corporate VP & General Counsel	0	0	0	0
Barone, Frank J. Former Corporate VP, Product Operations	61,562	40,202	0	0

NONQUALIFIED DEFERRED COMPENSATION TABLE

The following table sets forth information concerning nonqualified deferred compensation for the executive officers named above during the fiscal year ended December 30, 2006.

Name	Executive Contributions in Last Fiscal Year ($)	Registrant Contributions in Last Fiscal Year ($)	Aggregate Earnings in Last Fiscal Year ($)	Aggregate Withdrawals/ Distributions ($)	Aggregate Balance at Last Fiscal Year-End ($)
Skaggs, Stephen A. President & CEO	0	0	184	3,568	0
Johannessen, Jan Senior VP & CFO	0	0	0	0	0
Donovan, Stephen M. Corporate VP, Sales	0	0	33,144	0	99,437
Baker, Martin R. Corporate VP & General Counsel	0	0	0	0	0
Barone, Frank J. Former Corporate VP, Product Operations	0	0	67,183	0	598,076

We maintain an Executive Deferred Compensation Plan in which participation is limited, as provided in applicable tax laws and regulations, to executive officers and a limited number of other members of senior management. Under the provisions of this plan, certain senior executives may annually defer up to 75% of their salary and up to 100% of their incentive compensation. The return on deferred funds is based upon the performance of designated mutual funds or our publicly traded common stock. There is no guaranteed return or matching contribution, and all amounts deferred are considered general unsecured obligations of the Company. On the basis of deferrals by plan participants, we have made corresponding contributions to a trust fund owned by the Company for the benefit of deferred compensation plan participants. The trust fund invests in mutual funds or our publicly traded common stock in the manner directed by participants pursuant to provisions of the plan. Amounts invested in shares of the Company s common stock may not be subsequently reallocated into any other investment alternative.

Participant contributions to the deferred compensation plan, distributions and investment earnings and losses are accumulated in individual deferral investment accounts as established by the plan. The participants have the authority to invest the assets under the deferred compensation plan in investments selected by the plan s administrators. The investment gains or losses credited to a participant s account are based on investment elections made by the participant from prescribed mutual fund investment options. The table below shows the current investment options selected by participants in the deferred compensation plan and the total return for each investment option for the fiscal year ended December 30, 2006, as reported by the administrator of the deferred compensation plan.

Fund Name	**Total Return for the Fiscal Year Ended 12/30/2006**
Evergreen Institutional Money Market	5.0 %
Vanguard Bond Index Total Bond Market	4.3 %
Loomis Sayles Bond Fund	11.3 %
Vanguard S&P 500 Fund	15.6 %
AIM Charter A Fund	16.3 %
RS Value & Growth Fund	10.8 %
Janus Worldwide Fund	17.9 %
Fidelity Select Electronics Fund	0.3 %
Lattice Semiconductor Common Stock	50.0 %

Participants may elect to receive payment of the deferral account in a single lump sum payment or in 20, 40 or 60 quarterly installments following the end of the calendar year in which the distribution election event occurs. The distribution election event is specified by each plan participant in the annual deferred compensation agreement executed by each such participant and the Company.

POTENTIAL PAYMENTS UPON TERMINATION OR CHANGE-IN-CONTROL

The following paragraphs summarize each outstanding contract, agreement, plan or arrangement that provides for payment of benefits to one of our named executive officers at, following, or in connection with, any termination of such named executive officer s employment with the Company.

Stephen A. Skaggs

On August 9, 2005, the Company and Mr. Skaggs entered into an employment agreement. The employment agreement is at-will , and the Company may terminate Mr. Skaggs employment with or without Cause (as defined in the employment agreement) by giving Mr. Skaggs 30 days advance written notice. Mr. Skaggs may also terminate his employment by giving the Company 30 days advance written notice.

Upon termination of Mr. Skaggs employment for any reason, he is entitled to receive the following payments on the effective date of his termination: (i) all unpaid salary and unpaid vacation accrued through the date of termination, (ii) any unpaid, but earned and accrued non-equity incentive payment for any completed applicable determination period under the then-applicable executive non-equity incentive plan, and (iii) any unreimbursed business expenses. If the Company terminates Mr. Skaggs employment without Cause (as defined in the employment agreement) or if Mr. Skaggs terminates his employment with Good Reason (as defined in the employment agreement), then he will be entitled to receive (i) a severance payment equal to 1.5 times his then annual base salary plus 1.0 times his then target non-equity incentive payment pursuant to the then-applicable non-equity incentive plan, (ii) reimbursement of health insurance premiums for a period of 18 months following his termination date (or such earlier date upon which he receives comparable medical coverage), and (iii) immediate vesting under all of his then outstanding equity awards as if he had continued employment for an additional 12 months following his termination date.

In addition to the foregoing, if, within 24 months of a Change in Control (as defined in the employment agreement), Mr. Skaggs is terminated without Cause or terminates his employment with Good Reason, then (x) he will receive a severance payment equal to 2.0 times his then current base salary plus 2.0 times his target non-equity incentive payment pursuant to the then-applicable non-equity incentive plan, (y) he will receive reimbursement of health insurance premiums for 24 months, and (z) all of his outstanding equity awards will become fully vested and exercisable on the termination date. All severance payments are conditioned upon the execution by Mr. Skaggs of a release of claims against the Company. In addition, under the terms of his employment agreement, the receipt of severance payments is contingent on Mr. Skaggs for a period of one year (i) not soliciting employees of the Company, (ii) not directly or indirectly engaging in, having an ownership interest in, or participating in any entity that directly competes with the Company in any substantial business of the Company or any business reasonably expected to become a substantial business of the Company, and (iii) not knowingly publicly disparaging, criticizing, or otherwise making any derogatory statements regarding the Company, its directors, or its officers.

If any of the benefits and payments provided under the employment agreement are considered parachute payments within the meaning of Section 280G of the Internal Revenue Code (the Code) and are thus subject to the excise tax imposed by Section 4999 of the Code, the Company will provide Mr. Skaggs with a payment sufficient to cover such excise tax and an additional payment to cover the federal and state and employment taxes that will arise from this payment from the Company, not to exceed $1,000,000.

The following table provides information regarding the amounts that would have been owed to Mr. Skaggs under the terms of his employment agreement if Mr. Skaggs employment with the Company had been terminated as of December 30, 2006.

Name	Basis of Termination	Accrued Unpaid Salary ($)	Accrued Unpaid Vacation ($)	Unpaid Non-Equity Incentive Plan Compensation ($)(1)	Unreimbursed Business Expenses ($)	Severance Payment ($)	Continuation of Insurance Benefit ($)	Accelerated Vesting of Stock Options ($)	Tax Gross-Up ($)
Skaggs, Stephen A. President & CEO	Voluntary Termination	15,385	35,777	0	1,182	0	0	0	0
	Terminated without Cause or Termination by Employee with Good Reason	15,385	35,777	0	1,182	880,000 (2)	22,262	490,175 (4)	0
	Within 24 months after Change in Control, Terminated without Cause or Termination by Employee with Good Reason	15,385	35,777	0	1,182	1,360,000 (3)	29,683	1,297,306 (5)	1,000,000 (6)

(1) The compensation committee of the board of directors was responsible for determining and approving the amount of cash awards, if any, under the 2006 Executive Bonus Plan. The compensation committee approved these awards in February 2007. Thus, if Mr. Skaggs employment with the Company had been terminated on December 30, 2006, he would not yet have been entitled to receive this cash award.

(2) This amount is equal to 1.5 times Mr. Skaggs base salary plus 1.0 times his target cash award under the 2006 Executive Bonus Plan.

(3) This amount is equal to 2.0 times Mr. Skaggs base salary plus 2.0 times his target cash award under the 2006 Executive Bonus Plan.

(4) This amount represents the aggregate value of the in-the-money stock options that would have become exercisable as a result of acceleration of vesting provided for in Mr. Skaggs employment agreement if the Company had terminated him without Cause or if Mr. Skaggs had terminated his employment with Good Reason on December 30, 2006. To determine the value for each such in-the-money stock option, the difference between the exercise price and $6.48, equal to the closing price of our common stock on December 29, 2006 (the last day in 2006 that financial markets were open), was multiplied by the total number of shares in which Mr. Skaggs would have become additionally vested as a result of the 12 months of vesting acceleration provided for in his employment agreement with respect to a termination of Mr. Skaggs without Cause or a termination by Mr. Skaggs for Good Reason.

(5) This amount represents the aggregate value of the in-the-money stock options that would have become exercisable as a result of acceleration of vesting provided for in Mr. Skaggs employment agreement if, within 24 months following a Change in Control, the Company had terminated Mr. Skaggs without Cause or if Mr. Skaggs had terminated his employment with Good Reason on December 30, 2006. To determine the value for each such in-the-money stock option, the difference between the exercise price and $6.48, equal to the closing price of our common stock on December 29, 2006 (the last day in 2006 that financial markets were open), was multiplied by the total number of shares in which Mr. Skaggs would have become additionally vested as a result of the full vesting acceleration provided for in his employment agreement with respect to a termination of Mr. Skaggs without Cause or a termination by Mr. Skaggs for Good Reason within 24 months following a Change in Control.

(6) The benefits and payments described above that would be provided to Mr. Skaggs if his employment was terminated without Cause or if Mr. Skaggs terminated his employment with Good Reason within 24 months following a Change in Control would be parachute payments within the meaning of Section 280G of the Code, and, thus, would be subject to the excise tax imposed by Section 4999 of the Code. In such circumstances, under the terms of his employment agreement, the Company has agreed to provide Mr. Skaggs with a payment sufficient to cover such excise tax and an additional payment to cover the federal and state and employment taxes that will arise from the Company s payment of an amount to Mr. Skaggs for the excise tax. Under the terms of Mr. Skaggs employment agreement, the amount of such payment is capped at $1,000,000. The Company presently estimates that the payment owed to Mr. Skaggs for payment of excise tax and such other taxes would exceed $1,000,000, and, thus, would be capped at $1,000,000.

Jan Johannessen, Stephen M. Donovan and Martin R. Baker

On November 3, 2005, the Company entered into an employment agreement with Jan Johannessen, its Senior Vice President and Chief Financial Officer, Stephen M. Donovan, its Corporate Vice President, Sales, and Martin R. Baker, its Corporate Vice President, General Counsel, and Secretary. Each of the employment agreements with Mr. Johannessen, Mr. Donovan, and Mr. Baker is at-will , and the Company may terminate the employment of any of them with or without Cause (as defined in the employment agreements) by giving the executive officer 30 days advance written notice. Each of Mr. Johannessen, Mr. Donovan, and Mr. Baker may also terminate his employment by giving the Company 30 days advance written notice.

Upon termination of the employment of any of Mr. Johannessen, Mr. Donovan, or Mr. Baker for any reason, the executive officer is entitled to receive the following payments on the effective date of his termination: (i) all unpaid salary and unpaid vacation accrued through the date of termination, (ii) any unpaid, but earned and accrued incentive non-equity incentive payment for any completed applicable determination period under the then-applicable executive non-equity incentive plan, and (iii) any unreimbursed business expenses. If the Company terminates the employment of any of Mr. Johannessen, Mr. Donovan, or Mr. Baker without Cause or if any of these executive officers terminates his employment with Good Reason (as defined in the employment agreement), then the executive officer will be entitled to receive (i) a severance payment equal to 1.0 times his then annual base salary plus 1.0 times his then target non-equity incentive payment pursuant to the then-applicable non-equity incentive plan (adjusted pro rata on a monthly basis depending on the month the termination occurs) and (ii) reimbursement of health insurance premiums for a period of 12 months following his termination date (or such earlier date upon which he receives comparable medical coverage).

In addition to the foregoing, if, within 24 months of a Change in Control (as defined in the employment agreements), any of Mr. Johannessen, Mr. Donovan, or Mr. Baker is terminated without Cause or terminates his employment with Good Reason, then (x) the executive officer will receive a severance payment equal to 1.0 times his then current base salary plus 1.0 times his target non-equity incentive payment pursuant to the then-applicable non-equity incentive plan (without any pro rata adjustment), (y) the executive officer will receive reimbursement of health insurance premiums for 12 months, and (z) all of the executive officer s outstanding equity awards will become fully vested and exercisable on the termination date. All severance payments are conditioned upon the execution by the executive officer of a release of claims against the Company. In addition, under the terms of each executive officer s employment agreement, the receipt of severance payments is contingent on the executive officer for a period of one year (i) not soliciting employees of the Company, (ii) not directly or indirectly engaging in, having an ownership interest in, or participating in any entity that directly competes with the Company in any substantial business of the Company or any business reasonably expected to become a substantial business of the Company, and (iii) not knowingly publicly disparaging, criticizing, or otherwise making any derogatory statements regarding the Company, its directors, or its officers.

If any of the benefits and payments provided under the employment agreement are considered parachute payments within the meaning of Section 280G of the Internal Revenue Code (the Code) and are thus subject to the excise tax imposed by Section 4999 of the Code, then the executive officer s benefits under the employment shall be payable either (1) in full, or (2) as to such lesser amount which would result in no portion of such benefits being subject to excise tax under Section 4999 of the Code, whichever of the foregoing amounts, taking into account the applicable federal, state, and local income taxes and the excise tax imposed by Section 4999, results in the receipt by the executive officer of the greatest amount of after-tax benefits under the employment agreement.

The following table provides information regarding the amounts that would have been owed to each of Mr. Johannessen, Mr. Donovan, and Mr. Baker under the terms of each of their employment agreements if their employment with the Company had been terminated as of December 30, 2006.

Name	Basis of Termination	Accrued Unpaid Salary ($)	Accrued Unpaid Vacation ($)	Unpaid Non-Equity Incentive Compensation ($)(1)	Unreimbursed Business Expenses ($)	Severance Payment ($)	Continuation of Insurance Benefit ($)	Accelerated Vesting of Stock Options ($)
Johannessen, Jan Senior VP & CFO	Voluntary Termination	10,081	2,132	0	0	0	0	0
	Terminated without Cause or Termination of Employee with Good Reason	10,081	2,132	0	0	366,934 (2)	14,842	0
	Within 24 months after Change in Control, Terminated without Cause or Termination by Employee with Good Reason	10,081	2,132	0	0	366,934 (3)	14,842	306,719 (4)
Donovan, Stephen M. Corporate VP, Sales	Voluntary Termination	8,736	12,843	0	0	0	0	0
	Terminated without Cause or Termination of Employee with Good Reason	8,736	12,843	0	0	295,250 (2)	14,842	0
	Within 24 months after Change in Control, Terminated without Cause or Termination by Employee with Good Reason	8,736	12,843	0	0	295,250 (3)	14,842	151,481 (4)
Baker, Martin R. Corporate VP & General Counsel	Voluntary Termination	6,050	16,280	0	2,177	0	0	0
	Terminated without Cause or Termination of Employee with Good Reason	6,050	16,280	0	2,177	292,107 (2)	14,842	0
	Within 24 months after Change in Control, Terminated without Cause or Termination by Employee with Good Reason	6,050	16,280	0	2,177	292,107 (3)	14,842	129,716 (4)

(1) The compensation committee of the board of directors was responsible for determining and approving the amount of cash awards, if any, under the 2006 Executive Bonus Plan. The compensation committee approved these cash awards in February 2007. Thus, if the employment of Mr. Johannessen, Mr. Donovan, or Mr. Baker with the Company had been terminated on December 30, 2006, the executive officer would not yet have been entitled to receive this cash award.