

LATTICE SEMICONDUCTOR CORP

Form 10-Q

November 10, 2016

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT  
OF 1934

FOR THE QUARTERLY PERIOD ENDED OCTOBER 1, 2016

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF  
1934

FOR THE TRANSITION PERIOD FROM \_\_\_\_\_ TO \_\_\_\_\_

Commission file number 000-18032

LATTICE SEMICONDUCTOR CORPORATION

(Exact name of Registrant as specified in its charter)

State of Delaware 93-0835214

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

111 SW Fifth Ave, Ste 700, Portland, OR 97204

(Address of principal executive offices) (Zip Code)

(503) 268-8000

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period as the registrant was required to submit and post such files). Yes  No

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

Large accelerated filer  Accelerated filer

Non-accelerated filer  Smaller reporting company

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

Number of shares of common stock outstanding as of November 8, 2016

121,153,068

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Forward-Looking Statements

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Any statements about our expectations, beliefs, plans, objectives, assumptions, or future events or performance are not historical facts and may be forward-looking. We use words or phrases such as “anticipates,” “believes,” “could,” “estimates,” “expects,” “intends,” “plans,” “predicts,” “projects,” “may,” “will,” “should,” “continue,” “ongoing,” “future,” “potential,” and phrases to identify forward-looking statements.

Examples of forward-looking statements include, but are not limited to, statements about: our strategies and beliefs regarding the markets we serve or may serve; growth opportunities and growth in markets we may serve; our future product development and marketing plans; our intention to continually introduce new products and enhancements and reduce manufacturing costs; plans to introduce new product families in high-growth market niches where we believe that we have sustainable and differentiated positions; the anticipation that we will become increasingly dependent on revenue from newer products; our expectations regarding customer preferences and product use; acceptance of our devices; the Asia Pacific market being the primary source of our revenue; a significant portion of our revenue being through our sell-through distributors; our estimates and judgment to reconcile distributors’ inventories; our making significant future investments in research and development; the costs of making and developing various products; our expectation that we will continue to transition to increasingly smaller geometry process technologies; our ability to maintain or develop successful foundry relationships to produce new products; the adequacy of assembly and test capacity commitments; the impact of products, customers and downward pressure on pricing and effects on gross margin; expected synergies from the acquisition of Silicon Image; the expected cost and timing of our internal restructuring plan; our expectations regarding protection of and defenses to claims against our intellectual property; the finalization and settlement of litigation or administrative proceedings; the impact of our global tax structure and expectations regarding taxes and tax adjustments; our expectation regarding the sufficiency of our financial resources to meet our working capital needs through at least the next 12 months; our expectation that we may consider acquisition opportunities to further extend our product or technology portfolios and further expand our product offerings; the impact of new accounting pronouncements; our beliefs concerning the adequacy of our liquidity and facilities, and our ability to meet our operating and capital requirements and obligations; our continued participation in consortia that develop and promote the High-Definition Multimedia Interface ("HDMI"), Mobile High-Definition Link ("MHL") and WirelessHD specifications, and our participation in other standard setting initiatives; the effect of narrowing our agent functions regarding the HDMI consortium and related reduction in adopter fees; our ability to implement a company-wide enterprise resource planning system; any other changes in the agreements relating to various intellectual property or standards consortia and their sharing of past or present fees or royalties; our expectation that a new licensing agent will be appointed on behalf of the HDMI Founders in fiscal 2017; and our expectation that the proposed acquisition of the outstanding shares of the Company by Canyon Bridge Acquisition Company, Inc. will occur in early 2017.

Forward-looking statements involve estimates, assumptions, risks, and uncertainties that could cause actual results to differ materially from those expressed in the forward-looking statements. The key factors, among others, that could cause our actual results to differ materially from the forward-looking statements include global economic conditions and uncertainty, the concentration of our sales in the Mobile & Consumer and Communications & Computing end markets, particularly as it relates to the concentration of our sales in the Asia Pacific region, market acceptance and demand for our new products, our ability to license our intellectual property, any disruption of our distribution channels, the effect of the downturn in the economy on capital markets and credit markets, the impact of competitive products and pricing, unexpected charges, delays or results relating to our restructuring plans, unexpected changes to our implementation of a company-wide enterprise resource planning system, unanticipated taxation requirements or positions of the U.S. Internal Revenue Service, or unexpected impacts of recent 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, including, but not limited to, the items discussed in “Risk Factors” in Item 1A of Part II of this Quarterly Report on Form 10-Q.

You should not unduly rely on forward-looking statements because our actual results could differ materially from those expressed in any forward-looking statements made by us. In addition, any forward-looking statement applies only as of the date on which it is made. We do not plan to, and undertake no obligation to, update any forward-looking statements to reflect events or circumstances that occur after the date on which such statements are made or to reflect the occurrence of unanticipated events.

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## PART I. FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

LATTICE SEMICONDUCTOR CORPORATION  
CONSOLIDATED STATEMENTS OF OPERATIONS  
(unaudited)

(In thousands, except per share data)	Three Months Ended		Nine Months Ended	
	October 1, 2016	October 3, 2015	October 1, 2016	October 3, 2015
Revenue:				
Product	\$102,816	\$98,572	\$280,374	\$280,587
Licensing and services	10,409	11,143	28,572	24,185
Total revenue	113,225	109,715	308,946	304,772
Costs and expenses:				
Cost of product revenue	45,695	49,415	125,412	138,250
Cost of licensing and services revenue	106	451	580	715
Research and development	27,747	37,619	91,270	104,813
Selling, general, and administrative	29,244	23,819	75,857	73,096
Amortization of acquired intangible assets	8,260	8,941	25,292	20,824
Restructuring charges	317	6,818	8,316	15,780
Acquisition related charges	—	610	94	22,078
Impairment of intangible assets	7,866	—	7,866	—
	119,235	127,673	334,687	375,556
Loss from operations	(6,010 )	(17,958 )	(25,741 )	(70,784 )
Interest expense	(5,235 )	(5,754 )	(15,257 )	(12,870 )
Other income (expense), net	209	(841 )	3,558	(1,095 )
Loss before income taxes and equity in net loss of an unconsolidated affiliate	(11,036 )	(24,553 )	(37,440 )	(84,749 )
Income tax expense	971	309	7,410	29,030
Equity in net loss of an unconsolidated affiliate, net of tax	(407 )	—	(1,085 )	—
Net loss	\$(12,414 )	\$(24,862 )	\$(45,935 )	\$(113,779 )
Net loss per share, basic and diluted	\$(0.10 )	\$(0.21 )	\$(0.38 )	\$(0.97 )
Shares used in per share calculations, basic and diluted	120,584	117,669		