

LATTICE SEMICONDUCTOR CORP

Form 10-Q

November 05, 2014

Table of Contents

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 September 27, 2014

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

(State or other jurisdiction of incorporation or  
organization)

93-0835214

(I.R.S. Employer Identification No.)

5555 N.E. Moore Court, Hillsboro, Oregon

(Address of principal executive offices)

(503) 268-8000

(Registrant's telephone number, including area code)

97124-6421

(Zip 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 October 31, 2014

118,228,881

Table of Contents

LATTICE SEMICONDUCTOR CORPORATION  
INDEX

PART I. FINANCIAL INFORMATION

Item 1.	<u>Financial Statements (unaudited)</u>	<u>4</u>
	<u>Consolidated Statements of Operations – Three and Nine Months Ended September 27, 2014 and September 28, 2013</u>	<u>4</u>
	<u>Consolidated Statements of Comprehensive Income – Three and Nine Months Ended September 27, 2014 and September 28, 2013</u>	<u>5</u>
	<u>Consolidated Balance Sheets - September 27, 2014 and December 28, 2013</u>	<u>6</u>
	<u>Consolidated Statements of Cash Flows – Nine Months Ended September 27, 2014 and September 28, 2013</u>	<u>7</u>
	<u>Notes to Consolidated Financial Statements</u>	<u>8</u>
Item 2.	<u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>17</u>
Item 3.	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>27</u>
Item 4.	<u>Controls and Procedures</u>	<u>27</u>

PART II. OTHER INFORMATION

Item 1.	<u>Legal Proceedings</u>	<u>28</u>
Item 1A.	<u>Risk Factors</u>	<u>28</u>
Item 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>37</u>
Item 5.	<u>Other Information</u>	<u>37</u>
Item 6.	<u>Exhibits</u>	<u>38</u>
	<u>Signatures</u>	<u>39</u>

Table of Contents

Forward-Looking Statements

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Any statements about our expectations, beliefs, plans, objectives, assumptions or future events or performance are not historical facts and may be forward-looking. We use words or phrases such as “anticipates,” “believes,” “could,” “estimates,” “expects,” “intends,” “plans,” “predicts,” “projects,” “may,” “will,” “should,” “continue,” “ongoing,” “future,” “potential” and phrases to identify forward-looking statements. Examples of forward-looking statements include, but are not limited to, statements about: our strategies and beliefs regarding the markets we serve or may serve; growth opportunities and growth in markets we may serve; a significant portion of our revenue being through our sell-through distributors; the impact of our global tax structure and expectations regarding taxes and tax adjustments; our expectations that a significant portion of our revenue will continue to be dependent on the Consumer, Communications and Industrial end markets; our expectations regarding gross margin; our expectations regarding customer preferences and product use; our future product development and marketing plans; our ability to maintain or develop successful foundry relationships to produce new products; our expectations regarding amortization of intangible assets; our expectations regarding our stock repurchase program; the anticipation that revenue from mature products will decline; the adequacy of assembly and test capacity commitments; our making significant future investments in research and development; our beliefs concerning the adequacy of our liquidity and facilities, the possibility that we may obtain financing, and our ability to meet our operating and capital requirements and obligations.

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

Table of Contents

## PART I. FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

LATTICE SEMICONDUCTOR CORPORATION  
CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

(unaudited)

	Three Months Ended		Nine Months Ended	
	September 27, 2014	September 28, 2013	September 27, 2014	September 28, 2013
Revenue	\$86,570	\$87,154	\$282,527	\$243,006
Costs and expenses:				
Cost of products sold	35,759	40,778	122,603	113,365
Research and development	22,053	20,254	65,594	58,635
Selling, general and administrative	17,645	16,385	55,226	49,955
Amortization of intangible assets	737	737	2,211	2,223
Restructuring charges	2	85	16	257
	76,196	78,239	245,650	224,435
Income from operations	10,374	8,915	36,877	18,571
Other income, net	53	346	1,268	240
Income before income taxes	10,427	9,261	38,145	18,811
Provision for income taxes	1,021	417	4,984	3,037
Net income	\$9,406	\$8,844	\$33,161	\$15,774
Net income per share:				
Basic	\$0.08	\$0.08	\$0.28	\$0.14
Diluted	\$0.08	\$0.08	\$0.28	\$0.13
Shares used in per share calculations:				
Basic	118,643	116,055	117,661	115,730
Diluted	120,970	117,349	120,449	117,093

See Accompanying Notes to Unaudited Consolidated Financial Statements.

Table of ContentsLATTICE SEMICONDUCTOR CORPORATION  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands, except per share data)

(unaudited)

	Three Months Ended		Nine Months Ended	
	September 27, 2014	September 28, 2013	September 27, 2014	September 28, 2013
Comprehensive income:				
Net income	\$9,406	\$8,844	\$33,161	\$15,774
Other comprehensive income:				
Unrealized (loss) gain related to marketable securities, net	(210	) 221	(280	) (11
Less: reclassification adjustment for (gains) losses included in other income, net	(1	) 1	98	303
Realized gain on sale of auction rate securities, previously unrealized, net of tax	—	—	(1,147	) —
Translation adjustment	(159	) 225	579	(205
Comprehensive income	\$9,036	\$9,291	\$32,411	\$15,861

See Accompanying Notes to Unaudited Consolidated Financial Statements.

Table of ContentsLATTICE SEMICONDUCTOR CORPORATION  
CONSOLIDATED BALANCE SHEETS(In thousands, except share and par value data)  
(unaudited)

	September 27, 2014	December 28, 2013
Assets		
Current assets:		
Cash and cash equivalents	\$123,007	\$114,310
Short-term marketable securities	134,131	101,505
Accounts receivable, net	49,762	50,085
Inventories	65,074	46,222
Prepaid expenses and other current assets	16,634	13,679
Total current assets	388,608	325,801
Property and equipment, less accumulated depreciation	40,070	41,719
Long-term marketable securities	—	5,241
Other long-term assets	9,561	6,120
Intangible assets, net of amortization	10,274	12,484
Goodwill	44,808	44,808
Deferred income taxes	8,824	11,703
Total assets	\$502,145	\$447,876
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable and accrued expenses	\$36,929	\$37,454
Accrued payroll obligations	12,320	13,659
Deferred income and allowances on sales to sell-through distributors	11,294	7,495
Total current liabilities	60,543	58,608
Long-term liabilities	7,173	3,588
Total liabilities	67,716	62,196
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$.01 par value, 10,000,000 shares authorized, none issued and outstanding	—	—
Common stock, \$.01 par value, 300,000,000 shares authorized; 118,893,494 issued, 118,666,983 outstanding as of September 27, 2014 and 115,671,000 shares issued and outstanding as of December 28, 2013	1,189	1,157
Paid-in capital	644,867	626,861
Treasury stock, at cost	(1,700	) —
Accumulated deficit	(209,032	) (242,193
Accumulated other comprehensive loss	(895	) (145
Total stockholders' equity	434,429	385,680
Total liabilities and stockholders' equity	\$502,145	\$447,876
See Accompanying Notes to Unaudited Consolidated Financial Statements.		

Table of ContentsLATTICE SEMICONDUCTOR CORPORATION  
CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(unaudited)

	Nine Months Ended	
	September 27, 2014	September 28, 2013
Cash flows from operating activities:		
Net Income	\$33,161	\$15,774
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	16,884	15,173
Change in deferred income tax provision	3,827	1,886
Gain on sale of auction rate securities	(1,698)	—
Stock-based compensation	9,543	6,985
Changes in assets and liabilities:		
Accounts receivable, net	323	(6,044)
Inventories	(18,852)	1,899
Prepaid expenses and other current assets	(3,289)	(2,177)
Accounts payable and accrued expenses	(3,045)	(1,354)
Accrued payroll obligations	(1,339)	4,957
Deferred income and allowances on sales to sell-through distributors	3,799	7,034
Net cash provided by operating activities	39,314	44,133
Cash flows from investing activities:		
Proceeds from sales or maturities of short-term marketable securities	83,615	39,176
Proceeds from sales of auction rate securities	5,488	—
Purchase of marketable securities	(116,421)	(64,303)
Capital expenditures	(6,873)	(10,237)
Other investing activities, primarily time based software licenses	(3,800)	(5,939)
Net cash used in investing activities	(37,991)	(41,303)
Cash flows from financing activities:		
Net share settlement upon issuance of RSUs	(2,682)	(581)
Purchase of treasury stock	(1,700)	(2,452)
Net proceeds from issuance of common stock	11,177	2,642
Net cash provided by (used in) financing activities	6,795	(391)
Effect of exchange rate change on cash	579	(205)
Net increase in cash and cash equivalents	8,697	2,234
Beginning cash and cash equivalents	114,310	118,536
Ending cash and cash equivalents	\$123,007	\$120,770
Supplemental cash flow information:		
Unrealized (loss) gain related to marketable securities, net, included in Accumulated other comprehensive income	\$(182)	\$292
Income taxes paid, net of refunds	\$1,090	\$1,081
Increase in fixed assets related to asset retirement obligations	\$249	\$—
Accrued purchases of plant and equipment	\$(84)	\$(545)
See Accompanying Notes to Unaudited Consolidated Financial Statements.		





Table of Contents

LATTICE SEMICONDUCTOR CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

Note 1 - Basis of Presentation and Significant Accounting Policies:

The accompanying Consolidated Financial Statements are unaudited and have been prepared by Lattice Semiconductor Corporation ("Lattice," the "Company," "we," "us," or "our") pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC") and in our opinion include all adjustments, consisting of normal recurring adjustments, necessary for the fair statement of results for the interim periods. Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles ("U.S. GAAP") have been condensed or omitted pursuant to such rules and regulations. These Consolidated Financial Statements should be read in conjunction with our audited financial statements and notes thereto included in our Annual Report on Form 10-K for the fiscal year ended December 28, 2013.

We report based on a 52 or 53-week fiscal year ending on the Saturday closest to December 31. Our fiscal 2014 will be a 53-week year and will end on January 3, 2015. The fourth quarter of our fiscal 2014 will be 14 weeks. Our third quarter of fiscal 2014 and third quarter of fiscal 2013 ended on September 27, 2014 and September 28, 2013, respectively. All references to quarterly, three or nine months ended financial results are references to the results for the relevant fiscal period.

Principles of Consolidation

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

Cash Equivalents and Marketable Securities

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

Fair Value of Financial Instruments

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

Foreign Exchange and Translation of Foreign Currencies

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

Table of Contents

Derivative Financial Instruments

At September 27, 2014 and December 28, 2013, we had open foreign exchange contracts of 385,000,000 JPY and 240,000,000 JPY, respectively.