

LATTICE SEMICONDUCTOR CORP

Form 10-Q

October 29, 2018

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 29, 2018

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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period as the registrant was required to submit such files). Yes No

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

Non-accelerated filer Smaller reporting company

Emerging growth company

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

Indicate by check mark whether the registrant 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 22, 2018

129,525,043

Table of Contents

LATTICE SEMICONDUCTOR CORPORATION
 QUARTERLY REPORT ON FORM 10-Q
 TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION	Page
Item 1. <u>Financial Statements (unaudited)</u>	<u>4</u>
<u>Consolidated Statements of Operations – Three and Nine Months Ended September 29, 2018 and September 30, 2017 (unaudited)</u>	<u>4</u>
<u>Consolidated Statements of Comprehensive Income (Loss) – Three and Nine Months Ended September 29, 2018 and September 30, 2017 (unaudited)</u>	<u>5</u>
<u>Consolidated Balance Sheets - September 29, 2018 and December 30, 2017 (unaudited)</u>	<u>6</u>
<u>Consolidated Statements of Cash Flows – Nine Months Ended September 29, 2018 and September 30, 2017 (unaudited)</u>	<u>7</u>
<u>Notes to Consolidated Financial Statements (unaudited)</u>	<u>9</u>
Item 2. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>27</u>
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>42</u>
Item 4. <u>Controls and Procedures</u>	<u>42</u>
 PART II. OTHER INFORMATION	
Item 1. <u>Legal Proceedings</u>	<u>43</u>
Item 1A. <u>Risk Factors</u>	<u>44</u>
Item 6. <u>Exhibits</u>	<u>59</u>
<u>Signatures</u>	<u>60</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. These involve estimates, assumptions, risks, and uncertainties. Any statements about our expectations, beliefs, plans, objectives, assumptions, or future events or performance are not historical facts and may be forward-looking. We use words or phrases such as “anticipates,” “believes,” “could,” “estimates,” “expects,” “intends,” “plans,” “predicts,” “projects,” “should,” “continue,” “ongoing,” “future,” “potential,” and similar words or phrases to identify forward-looking statements.

Examples of forward-looking statements include, but are not limited to, statements about: our transitions to newly adopted accounting standards; the effect of new accounting standards on our consolidated financial statements and financial results; the effects of sales mix on our gross margin in the future; our judgments involved in revenue recognition; our strategies and beliefs regarding the markets in which we compete or may compete; our future investments in research and development; our expectations regarding cash provided by or used in operating activities; our expectations regarding royalties under collaborative agreements; our expectations regarding our ability to service our debt obligations; our expectations regarding restructuring charges under and timing of restructuring plans; our expectation regarding payment of foreign and U.S. federal income taxes; the sufficiency of our financial resources to meet our operating and working capital needs through at least the next 12 months; our intention to continually introduce new products and enhancements and reduce manufacturing costs; our expectation of production volumes and the associated revenue streams for certain mobile handset providers; our continued participation in or sources of revenue from standard setting initiatives or consortia that develop and promote the High-Definition Multimedia Interface ("HDMI") and Mobile High-Definition Link ("MHL") specifications including our expectations regarding sharing of HDMI royalty revenues; our plans to continue to monetize our patent portfolio through sales of non-core patents; our ability to adequately remediate our material weakness; the adequacy of assembly and test capacity commitments; our expectations regarding taxes and tax adjustments, particularly with respect to the 2017 Tax Act; our expectations regarding the outcome of tax and other audits; our valuation allowance and uncertain tax positions; our beliefs regarding the adequacy of our liquidity, capital resources and facilities; our expectations regarding our implementation of a company-wide enterprise resource planning system; and our expectations regarding the impact of sanctions imposed by the United States Department of Commerce.

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 included global economic conditions and uncertainty, including as a result of trade related restrictions or tariffs, the concentration of our sales in certain end markets, particularly as it relates to the concentration of our sales in the Asia Pacific region, market acceptance and demand for our existing and new products, our ability to license our intellectual property, any disruption of our distribution channels, the impact of competitive products and pricing, unexpected charges, delays or results relating to our restructuring plans, unexpected complications with our implementation of a company-wide enterprise resource planning system, the effect of any downturn in the economy on capital markets and credit markets, unanticipated taxation requirements or positions of the U.S. Internal Revenue Service or other taxing authority, unanticipated effects of tax reform, or unexpected impacts of accounting guidance. In addition, actual results are subject to other risks and uncertainties that relate more broadly to our overall business, including those more fully described herein and that are otherwise described from time to time in our filings with the Securities and Exchange Commission, 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.

3

Table of Contents

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	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Revenue:				
Product	\$97,932	\$ 87,369	\$291,335	\$ 263,206
Licensing and services	3,552	4,602	11,487	27,489
Total revenue	101,484	91,971	302,822	290,695
Costs and expenses:				
Cost of product revenue	43,120	38,032	137,430	120,395
Cost of licensing and services revenue	—	617	259	4,937
Research and development	19,131	25,648	63,153	79,857
Selling, general, and administrative	21,775	21,290	69,886	67,133
Amortization of acquired intangible assets	3,823	8,526	13,982	25,777
Restructuring charges	90	3,071	5,495	4,713
Acquisition related charges	—	681	1,531	3,208
Impairment of acquired intangible assets	586	36,198	12,486	36,198
Gain on sale of building	—	(4,624)	—	(4,624)
Total costs and expenses	88,525	129,439	304,222	337,594
Income (loss) from operations	12,959	(37,468)	(1,400)	(46,899)
Interest expense	(5,500)	(3,888)	(15,582)	(14,112)
Other expense, net	(452)	(2,027)	(246)	(2,104)
Income (loss) before income taxes	7,007	(43,383)	(17,228)	(63,115)
Income tax expense (benefit)	33	(331)	1,973	234
Net income (loss)	\$6,974	\$ (43,052)	\$(19,201)	\$(63,349)
Net income (loss) per share:				
Basic	\$0.05	\$ (0.35)	\$(0.15)	\$(0.52)
Diluted	\$0.05	\$ (0.35)	\$(0.15)	\$(0.52)

Shares used in per share calculations: