

LATTICE SEMICONDUCTOR CORP

Form 10-Q

November 12, 2015

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 OCTOBER 3, 2015

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

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 6, 2015

117,905,097

Table of Contents

LATTICE SEMICONDUCTOR CORPORATION  
INDEX

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 October 3, 2015 and September 27, 2014 (unaudited)</u>	<u>4</u>
<u>Consolidated Statements of Comprehensive (Loss) Income – Three and Nine Months Ended October 3, 2015 and September 27, 2014 (unaudited)</u>	<u>5</u>
<u>Consolidated Balance Sheets - October 3, 2015 and January 3, 2015 (unaudited)</u>	<u>6</u>
<u>Consolidated Statements of Cash Flows – Nine Months Ended October 3, 2015 and September 27, 2014 (unaudited)</u>	<u>7</u>
<u>Notes to Consolidated Financial Statements (unaudited)</u>	<u>8</u>
Item 2. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>22</u>
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>33</u>
Item 4. <u>Controls and Procedures</u>	<u>33</u>
 PART II. OTHER INFORMATION	
Item 1. <u>Legal Proceedings</u>	<u>34</u>
Item 1A. <u>Risk Factors</u>	<u>34</u>
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>46</u>
Item 5. <u>Other Information</u>	<u>46</u>
Item 6. <u>Exhibits</u>	<u>47</u>
<u>Signatures</u>	<u>48</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: expected synergies from the acquisition of Silicon Image; the expected cost and timing of our internal restructuring plan; 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; the impact of new accounting pronouncements; anticipated amounts used in acquisition valuation and purchase accounting; our ability to maintain or develop successful foundry relationships to produce new products; the anticipation that we will become increasingly dependent on revenue from newer products; the adequacy of assembly and test capacity commitments; our expectations regarding protection of and defenses to claims against our intellectual property; the finalization and settlement of litigation or administrative proceedings; our making significant future investments in research and development; our beliefs concerning the adequacy of our liquidity and facilities, and our ability to meet our operating and capital requirements and obligations; the possibility that we may revise our preliminary purchase price allocation related to our acquisition of Silicon Image, Inc.; our expectation that we will continue to transition to increasingly smaller geometry process technologies; our continued participation in consortia that develop and promote the HDMI, MHL and WirelessHD specifications, and our participation in other standard setting initiatives; the anticipated narrowing of our agent functions regarding the HDMI consortium and related reduction in adopter fees; and any other changes in the agreements relating to various intellectual property or standards consortia and their sharing of past or present fees or royalties.

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, unexpected charges, delays or results relating to our restructuring plans, 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 and Silicon Image’s 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 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		
	October 3, 2015	September 27, 2014	October 3, 2015	September 27, 2014	
Revenue					
Product	\$98,572	\$86,570	\$280,587	\$282,527	
Licensing and services	11,143	—	24,185	—	
Total revenue	109,715	86,570	304,772	282,527	
Costs and expenses:					
Cost of product revenue	49,415	35,759	138,250	122,603	
Cost of licensing and services revenue	451	—	715	—	
Research and development	37,619	22,053	104,813	65,594	
Selling, general, and administrative	23,819	17,645	73,096	55,226	
Acquisition related charges	610	—	22,078	—	
Restructuring charges	6,818	2	15,780	16	
Amortization of acquired intangible assets	8,941	737	20,824	2,211	
	127,673	76,196	375,556	245,650	
(Loss) income from operations	(17,958	) 10,374	(70,784	) 36,877	
Interest expense	(5,754	) —	(12,870	) (48	)
Other (expense) income, net	(943	) 53	(1,298	) 1,316	
(Loss) income before income taxes	(24,655	) 10,427	(84,952	) 38,145	
Income tax expense	309	1,021	29,030	4,984	
Net (loss) income	(24,964	) 9,406	(113,982	) 33,161	
Less: Net loss attributable to noncontrolling interest	102	—	203	—	
Net (loss) income attributable to common stockholders	\$(24,862	) \$9,406	\$(113,779	) \$33,161	
Net (loss) income per share:					
Basic	\$(0.21	) \$0.08	\$(0.97	) \$0.28	
Diluted	\$(0.21	) \$0.08	\$(0.97	) \$0.28	

Shares used in per