

LATTICE SEMICONDUCTOR CORP

Form 10-Q

May 08, 2009

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

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE QUARTERLY PERIOD ENDED APRIL 4, 2009

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)

5555 N.E. Moore Court, Hillsboro, Oregon
(Address of principal executive offices)

(503) 268-8000

(Registrant's telephone number, including area code)

93-0835214
(I.R.S. Employer Identification No.)

97124-6421
(Zip Code)

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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 May 4, 2009 115,247,305

The information contained in this Form 10-Q is as of May 8, 2009. This Form 10-Q should be read in conjunction with our Annual Report on Form 10-K for the year ended January 3, 2009.

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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, estimates, expects, intends, plans, projects, may, will, should, continue, ongoing, future, potential, or other similar phrases to identify forward-looking statements.

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 communications equipment end market, particularly as it relates to the China 3G telecommunications network build-out, the compromised liquidity of auction rate securities in our long-term marketable securities portfolio, market acceptance and demand for our new products, our reliance on export sales, the effect of global economic conditions on the repayment of certain of our receivables, the effect of the downturn in the economy on capital markets, technology and development risks, the transition to a new executive management team, our efforts to improve our cost structure, our efforts to reduce costs out of our supply chain, the transition to new distributors in various regions including Taiwan and China, our having clearly focused our business on identifying and pursuing programmable logic opportunities where we have sustainable and differentiated market positions, the impact of competitive products and pricing, 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 (SEC), 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 materially differ from those expressed in any forward-looking statements made by us. Further, any forward-looking statement applies only as of the date on which it is made. We are not required to update any forward-looking statements to reflect events or circumstances 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****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS****(In thousands, except per share data)****(unaudited)**

	Three months ended	
	April 4, 2009	March 29, 2008
Revenue	\$ 43,336	\$ 56,604
Costs and expenses:		
Cost of products sold	20,658	25,160
Research and development	14,891	17,668
Selling, general and administrative	12,943	14,999
Amortization of intangible assets	228	1,481
Restructuring	(25)	1,790
	48,695	61,098
Loss from operations	(5,359)	(4,494)
Other (expense) income, net	(512)	1,333
Loss before provision for income taxes	(5,871)	(3,161)
(Benefit) provision for income taxes	(121)	93
Net loss	\$ (5,750)	\$ (3,254)
Basic and diluted net loss per share	\$ (0.05)	\$ (0.03)
Shares used in per share calculations:		
Basic and diluted	115,430	115,146

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

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LATTICE SEMICONDUCTOR CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share and par value data)

(unaudited)

	April 4, 2009	January 3, 2009
Assets		
Current assets:		
Cash and cash equivalents	\$ 69,446	\$ 53,668
Short-term marketable securities	1,992	12,241
Accounts receivable, net	25,264	26,404
Other receivable	60,000	60,000
Inventories	30,276	32,703
Current portion of foundry advances	22,520	19,157
Prepaid expenses and other current assets	7,199	7,663
Total current assets	216,697	211,836
Foundry advances and other assets	12,287	20,080
Property and equipment, less accumulated depreciation	38,014	40,307
Long-term marketable securities	19,662	19,485
Intangible assets, less accumulated amortization		228
Total assets	\$ 286,660	\$ 291,936
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable and accrued expenses	\$ 16,308	\$ 16,947
Accrued payroll obligations	6,506	6,693
Deferred income and allowances on sales to distributors	5,910	5,741
Total current liabilities	28,724	29,381
Other long-term liabilities	6,784	7,616
Total liabilities	35,508	36,997
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, 115,252,000 and 115,469,000 shares issued and outstanding	1,155	1,155
Paid-in capital	619,022	617,572
Treasury stock	(324)	
Accumulated other comprehensive income (loss)	304	(533)
Accumulated deficit	(369,005)	(363,255)
Total stockholders' equity	251,152	254,939
Total liabilities and stockholders' equity	\$ 286,660	\$ 291,936

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

Table of Contents**LATTICE SEMICONDUCTOR CORPORATION****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(In thousands)****(unaudited)**

	Three months ended	
	April 4, 2009	March 29, 2008
Cash flows from operating activities:		
Net loss	\$ (5,750)	\$ (3,254)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	4,100	5,448
Impairment of Long-term marketable securities	664	
Stock-based compensation	1,259	1,368
Changes in assets and liabilities:		
Accounts receivable, net	1,140	377
Inventories	2,427	753
Prepaid expenses and other current assets	742	1,745
Foundry advances (includes advance credits)	3,235	5,062
Accounts payable and accrued expenses	104	(1,197)
Accrued payroll obligations	(187)	(2,266)
Deferred income and allowances on sales to distributors	169	(920)
Other liabilities	(438)	(216)
Net cash provided by operating activities	7,465	6,900
Cash flows from investing activities:		
Proceeds from sales or maturities of marketable securities	10,240	46,980
Purchase of marketable securities		(16,806)
Capital expenditures	(798)	(3,207)
Net cash provided by investing activities	9,442	26,967
Cash flows from financing activities:		
Payment on yen line of credit	(805)	(1,136)
Repurchases of common stock	(324)	
Net proceeds from issuance of common stock		1
Net cash used in financing activities	(1,129)	(1,135)
Net increase in cash and cash equivalents	15,778	32,732
Beginning cash and cash equivalents	53,668	37,332
Ending cash and cash equivalents	\$ 69,446	\$ 70,064
Supplemental disclosures of non-cash investing and financing activities:		
Unrealized gain (loss) on assets measured at fair value, net, included in Accumulated other comprehensive income (loss)	\$ 831	\$ (7,806)
Distribution of deferred compensation from trust assets	\$ 353	\$ 1,208

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

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LATTICE SEMICONDUCTOR CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1 Basis of Presentation and Significant Accounting Policies:

The accompanying Condensed Consolidated Financial Statements are unaudited and have been prepared by Lattice Semiconductor Corporation (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 generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. These Condensed 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 year ended January 3, 2009.

The preparation of financial statements in conformity with generally accepted accounting principles requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting periods. Our most critical estimate relates to auction rate securities, and the estimates of fair value of these securities made in accordance with the provisions of Statement of Financial Accounting Standards (SFAS) No. 157 Fair Value Measurements (SFAS No. 157). Actual results could differ from these estimates.

We report based on a 52 or 53-week fiscal year ending on the Saturday closest to December 31. Our first quarter of fiscal 2009 and fiscal 2008 ended on April 4, 2009 and March 29, 2008, respectively. All references to quarterly or three months ended financial results are references to the results for the relevant fiscal period.

New Accounting Pronouncements

During the first fiscal quarter of 2009, the Financial Accounting Standards Board issued Staff Positions SFAS No. 157-4, Determining Fair Value When the Volume and Level of Activity for the Asset or Liability has Significantly Decreased and the Identifying Transactions That Are Not Orderly, SFAS No. 115-2 and SFAS No. 124-2, Recognition and Presentation of Other-Than-Temporary Impairments, and SFAS No. 107-1 and APB 28-1, Interim Disclosures about Fair Value of Financial Instruments. These Staff Positions were issued to clarify the application of SFAS No. 157, Fair Value Measurements in the current economic environment, modify the recognition of other-than-temporary impairments of debt securities, and require companies to disclose the fair value of financial instruments in interim periods. The Staff Positions are effective for interim and annual periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009, if all three Staff Positions or both the fair-value measurement and other-than-temporary impairment Staff Positions are adopted simultaneously. The Company plans to adopt the Staff Positions in the second quarter of fiscal 2009 and is currently evaluating the impact, if any, the adoption will have on the Company's Condensed Consolidated Financial Statements.

Table of Contents**Note 2 Net Loss Per Share:**

Net loss per share is computed based on the weighted average number of shares of common stock and potentially dilutive securities assumed to be outstanding during the period using the treasury stock method and the if converted method for convertible securities. Potentially dilutive securities consist of stock options, restricted stock units (RSUs), warrants to purchase shares of common stock and Zero Coupon Convertible Subordinated Notes due in 2010 (Convertible Notes) for the periods in which they were outstanding (see Note 10).

The computation of basic and diluted net loss per share for the quarters ended April 4, 2009, and March 29, 2008, excludes the effects of stock options, RSUs and warrants aggregating 13.7 million and 21.7 million shares, respectively, because the effect was antidilutive. Stock options, RSUs and warrants are antidilutive when the aggregate of exercise price, unrecognized stock-based compensation expense and excess tax benefit are greater than the average market price for our common stock during the period or when the Company is in a net loss position.

For the quarter ended March 29, 2008, the effects of the Convertible Notes, aggregating 3.3 million shares, were excluded from the computation of basic and diluted earnings per share, as the effect was antidilutive. Shares underlying Convertible Notes are antidilutive when there is a loss for the period or if loan servicing costs exceed the profit for the period (see Note 10).

Note 3 Marketable Securities:

The following table summarizes the contractual maturities of our marketable securities (at fair value and in thousands):

	April 4, 2009	January 3, 2009
Short-term marketable securities:		
Due within one year	\$ 1,992	\$ 12,241
Long-term marketable securities:		
Due after five years through ten years	4,668	5,333
Due after ten years	14,063	13,233
No contractual maturity date	931	919
	19,662	19,485
Total marketable securities	\$ 21,654	\$ 31,726

The following table summarizes the composition of our marketable securities (at fair value and in thousands):

	April 4, 2009	January 3, 2009
Short-term marketable securities:		
Corporate and municipal bonds, notes and commercial paper	\$ 1,992	\$ 7,221
Market rate investments		5,020
	1,992	12,241
Long-term marketable securities:		
Auction Rate Securities (by type of underlying asset):		
Federally-insured or FFELP guaranteed student loans	14,063	13,233
Corporate bonds, subject to credit default swap risk	4,668	5,333
Auction market preferred shares	931	919
	19,662	19,485

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Total marketable securities	\$ 21,654	\$ 31,726
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At both April 4, 2009 and January 3, 2009, the Company held auction rate securities with a face value of \$39.2 million. At April 4, 2009, due to the occurrence of multiple failed auctions and a determination of illiquidity, the auction rate securities held by the Company had an estimated fair value of \$19.7 million and had been reclassified to Long-term marketable securities.

Long-term marketable securities with a face value of \$14.0 million (estimated fair value of \$4.7 million) are exposed to risks associated with the sale of credit default swaps, pursuant to which the assets underlying the auction rate securities are exposed to claims in the event of default of certain debt instruments owned by third parties. In addition, investment grade long-term marketable securities with a face value of \$8.3 million (estimated fair value of \$0.9 million) were replaced on December 3, 2008 by auction market preferred shares issued by Ambac Assurance Corporation (AMBAC), as a result of AMBAC exercising their put option feature provided in this security. As of April 4, 2009, the credit ratings on our corporate auction rate securities were BBB and BBB-,

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and preferred shares auction rate securities were BBB. In addition, Long-term marketable securities with a face value of \$16.9 million (estimated fair value of \$14.1 million) are exposed to risks associated with student loan asset-backed notes. Such notes are insured by the federal government or guaranteed by the Federal Family Education Loan Program (FFELP). The credit ratings on our student loan auction rate securities were AAA and A3.

Note 4 Fair Value of Financial Instruments:

The Company's assets measured at fair value were as follows (in thousands):

	Fair value measurements as of April 4, 2009			
	Total	Level 1	Level 2	Level 3
Short-term marketable securities	\$ 1,992	\$ 1,992	\$	\$
Long-term marketable securities	19,662			19,662
Total assets measured at fair value	\$ 21,654	\$ 1,992	\$	\$ 19,662