

LATTICE SEMICONDUCTOR CORP
Form 10-Q
May 10, 2007

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2007

OR

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**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)

97124-6421

(Zip Code)

(503) 268-8000

(Registrant's telephone number, including area 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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

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 8, 2007 114,769,861

The information contained in this Form 10-Q is as of May 9, 2007. This Form 10-Q should be read in conjunction with our Annual Report on Form 10-K for the year ended December 30, 2006.

LATTICE SEMICONDUCTOR CORPORATION

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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, and 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 overall semiconductor market conditions, market acceptance and demand for our new products, our dependencies on our silicon wafer suppliers, the impact of competitive products and pricing, technological and product development risks, 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 statement or statements to reflect events or circumstances after the date on which such statement is made or to reflect the occurrence of unanticipated events.

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

LATTICE SEMICONDUCTOR CORPORATION

CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS

(In thousands, except per share data)

(unaudited)

	Three Months Ended March 31, 2007	April 1, 2006
Revenue	\$ 58,107	\$ 57,452
Costs and expenses:		
Cost of products sold	26,218	25,145
Research and development	22,008	20,351
Selling, general and administrative	14,566	13,689
Amortization of intangible assets	2,667	2,813
Restructuring	(130)	119
	65,329	62,117
Loss from operations	(7,222)	(4,665)
Interest and other income (expense), net:		
Interest income	2,201	2,755
Interest expense	(22)	(12)
Other income, net	829	1,304
	3,008	4,047
Loss before provision for income taxes	(4,214)	(618)
Provision for income taxes	169	189
Net loss	\$ (4,383)	\$ (807)
Basic net loss per share	\$ (0.04)	\$ (0.01)
Diluted net loss per share	\$ (0.04)	\$ (0.01)
Shares used in per share calculations:		
Basic	114,688	113,791
Diluted	114,688	113,791

See Accompanying Notes to Condensed Unaudited Consolidated Financial Statements.

LATTICE SEMICONDUCTOR CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEET

(In thousands, except share and par value data)

(unaudited)

	March 31, 2007	December 30, 2006
Assets		
Current assets:		
Cash and cash equivalents	\$ 34,109	\$ 40,437
Marketable securities	135,547	192,771
Accounts receivable, net	28,659	22,545
Inventories	40,311	38,816
Current portion of foundry investments and advances	26,955	23,714
Prepaid expenses and other current assets	10,116	11,760
Total current assets	275,697	330,043
Foundry investments, advances and other assets	101,749	109,964
Property and equipment, less accumulated depreciation	47,228	46,696
Intangible assets, less accumulated amortization	12,980	15,647
Goodwill	223,556	223,556
	\$ 661,210	\$ 725,906
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable and accrued expenses	\$ 32,505	\$ 70,442
Accrued payroll obligations	9,534	12,401
Deferred income and allowances on sales to distributors	7,548	6,230
Other current liabilities	9,120	20,480
Total current liabilities	58,707	109,553
Zero Coupon Convertible Subordinated Notes due in 2010	80,000	89,120
Other long-term liabilities	5,639	15,488
Total liabilities	144,346	214,161
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, 114,753,000 and 114,526,000 shares issued and outstanding	1,148	1,145
Paid-in capital	605,833	603,273
Accumulated other comprehensive loss	(501)	(230)
Accumulated deficit	(89,616)	(92,443)
	516,864	511,745
	\$ 661,210	\$ 725,906

See Accompanying Notes to Condensed Unaudited Consolidated Financial Statements.

LATTICE SEMICONDUCTOR CORPORATION

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

(In thousands)

(unaudited)

	Three Months Ended	
	March 31, 2007	April 1, 2006
Cash flows from operating activities:		
Net loss	\$ (4,383)	\$ (807)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	7,099	6,822
Gain on extinguishment of convertible notes	(653)	(1,200)
Stock-based compensation	1,389	707
Changes in assets and liabilities:		
Accounts receivable	(6,114)	(1,816)
Inventories	(1,495)	(3,567)
Prepaid expenses and other assets	1,995	1,022
Wafer advances (includes wafer credits)	2,268	2,685
Accounts payable and accrued expenses	(39,804)	(2,674)
Accrued payroll obligations	(2,868)	(1,932)
Deferred income and allowances on sales to distributors	1,318	(2,765)
Other liabilities	22	51
Net cash used in operating activities	(41,226)	(3,474)
Cash flows from investing activities:		
Proceeds from sales or maturities of marketable securities	105,480	47,295
Purchase of marketable securities	(48,256)	(35,183)
Capital expenditures	(3,915)	(2,754)
Net cash provided by investing activities	53,309	9,358
Cash flows from financing activities:		
Extinguishment of Zero Coupon Convertible Subordinated Notes	(19,575)	(8,738)
Advances on yen line of credit		607
Paydown on yen line of credit		(420)
Net proceeds from issuance of common stock	1,164	1,292
Net cash used in financing activities	(18,411)	(7,259)
Net decrease in cash and cash equivalents	(6,328)	(1,375)
Beginning cash and cash equivalents	40,437	39,336
Ending cash and cash equivalents	\$ 34,109	\$ 37,961
Supplemental disclosures of non-cash investing and financing activities:		
Unrealized (loss) gain on (depreciation) appreciation of foundry investments included in		
Accumulated other comprehensive loss	\$ (249)	\$ 1,572
Distribution of deferred compensation	\$ 1,274	\$ 2,785

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) pursuant to the rules and regulations of the Securities and Exchange Commission (SEC) and in our opinion include all adjustments, consisting only 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 December 30, 2006. Prior period disclosures have been reclassified to the extent required to be consistent with the current period presentation. As a result of the restructuring implemented in the fourth quarter of 2005 (see Note 8 to these Condensed Consolidated Financial Statements), the Company realigned certain departments and job responsibilities in 2006. Due to these changes, the Company reviewed its historical cost center allocations and has reclassified these to reflect post-restructuring operations. Amounts previously reported in the first quarter of 2006 have been reclassified to be consistent with the approach applied in the first quarter of 2007.

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. Actual results could differ from these estimates.

We report based on a 52 or 53-week year ending on the Saturday closest to December 31. Our first quarter for fiscal 2007 and 2006 ended on March 31, 2007 and April 1, 2006, respectively. All references to quarterly or yearly financial results are references to the results for the relevant fiscal period.

Effective December 31, 2006, we adopted Financial Accounting Standards Board (FASB) Interpretation No. 48, Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109 (FIN No. 48). We are subject to income taxes in the United States and certain foreign countries. We believe our tax return positions are fully supported, but tax authorities may challenge certain positions, which may not be fully sustained. We assess our income tax positions and record tax benefits for all years subject to examination based upon management's evaluation of the facts, circumstances, and information available at the reporting date. For uncertain tax positions where it is more likely than not that a tax benefit will be sustained, we record the greatest amount of tax benefit that has a greater than 50 percent probability of being realized upon effective settlement with a taxing authority that has full knowledge of all relevant information. For uncertain income tax positions where it is not more likely than not that a tax benefit will be sustained, no tax benefit has been recognized in the financial statements. Our policy is to recognize interest and penalties that would be assessed in relation to the settlement value of unrecognized tax benefits in the Provision for income taxes. Other than the adoption of FIN No. 48, there have been no changes to the significant accounting policies as included in the audited financial statements included in our Annual Report on Form 10-K for the year ended December 30, 2006.

New Accounting Pronouncements

There have been no new relevant accounting pronouncements or material changes to the new accounting pronouncements as previously reported in the Company's Annual Report on Form 10-K for the fiscal year ended December 30, 2006.

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. Potentially dilutive securities consist of stock options, restricted stock units, warrants to purchase common stock and Zero Coupon Convertible Subordinated Notes due in 2010 (Convertible Notes).

The most significant difference between the computation of basic and diluted net income per share is that basic net income per share does not treat potentially dilutive securities such as stock options, restricted stock units, warrants and Convertible Notes as

outstanding. For both periods presented, the computation of diluted net loss per share excludes the effect of stock options, restricted stock units, warrants and Convertible Notes, as they are antidilutive. A reconciliation of basic and diluted net loss per share is presented below (in thousands, except for per share data):