
UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of The Securities Exchange Act of 1934

Date of Report (Date of earliest event reported)

February 11, 2020

Lattice Semiconductor Corporation

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation)

000-18032

(Commission File Number)

93-0835214

(IRS Employer
Identification No.)

5555 NE Moore Court
Hillsboro, Oregon 97124

(Address of principal executive offices, including zip code)

(503) 268-8000

(Registrant's telephone number, including area code)

(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Securities registered pursuant to Section 12(b) of the Act:

| <u>Title of each class</u> | <u>Trading Symbol</u> | <u>Name of each exchange on which registered</u> |
|-------------------------------|-----------------------|--|
| Common Stock, \$.01 par value | LSCC | NASDAQ Global Select Market |

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

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.

Item 2.02. Results of Operations and Financial Condition.

On February 11, 2020, Lattice Semiconductor Corporation (the “Company”) issued a press release announcing the Company's financial results for the fourth quarter and full year ended December 28, 2019. A copy of the press release is furnished (not filed) as Exhibit 99.1 to this Current Report on Form 8-K. The information in Exhibit 99.1 shall not be deemed to be “filed” for the purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), or incorporated by reference in any filing under the Securities Act of 1933, as amended (the “Securities Act”), or the Exchange Act, except as shall be expressly set forth by specific reference in such a filing.

Item 9.01. Financial Statements and Exhibits.

(d) Exhibits

The following exhibits are being furnished herewith:

| <u>Exhibit No.</u> | <u>Description</u> |
|--------------------|--|
| 99.1 | Press Release, dated February 11, 2020 (furnished herewith). |

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

LATTICE SEMICONDUCTOR CORPORATION

By: /s/ Sherri Luther

Sherri Luther
Chief Financial Officer

Date: February 11, 2020

EXHIBIT INDEX

| <u>Exhibit No.</u> | <u>Description</u> |
|--------------------|--|
| 99.1 | Press Release, dated February 11, 2020 (furnished herewith). |



NEWS RELEASE

CONTACTS

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LATTICE SEMICONDUCTOR REPORTS

FOURTH QUARTER AND FULL YEAR 2019 RESULTS

- Gross Margin Expands to 59.2% for 4Q 2019 on a GAAP Basis and 59.6% on a Non-GAAP Basis from 56.6% and 56.7%, respectively, for 4Q 2018
- Operating Margin Increases to 15.5% of revenue for 4Q 2019 on a GAAP Basis and 24.3% on a Non-GAAP Basis from (1.8)% and 17.3%, respectively, for 4Q 2018
- Net Income Improves to \$0.10 / \$0.17 Per Diluted Share for 4Q 2019 on a GAAP / Non-GAAP Basis, from (\$0.05) / \$0.08, respectively, for 4Q 2018

** GAAP represents U.S. Generally Accepted Accounting Principles. Non-GAAP represents GAAP excluding the impact of certain activities which the Company's management excludes in analyzing the Company's operating results and in understanding trends in the Company's earnings. For a reconciliation of GAAP to non-GAAP results, see accompanying tables "Reconciliation of U.S. GAAP to Non-GAAP Financial Measures."*

HILLSBORO, OR - February 11, 2020 - Lattice Semiconductor Corporation (NASDAQ: LSCC), the low power programmable leader, announced financial results today for the fiscal fourth quarter and full year ended December 28, 2019.

Jim Anderson, President and Chief Executive Officer, said, "We made solid progress in 2019, as we drove a 210 basis point improvement in gross margin on a non-GAAP basis, and an 88% increase in non-GAAP net income for the full year. We are seeing the benefits of our business and product strategy, which is aligned with our customers and 100% focused on power efficient FPGAs. We remain focused on driving further improvements as we increase our cadence of new hardware products, solutions, and software stacks, including the launch of Nexus, our next-generation FPGA platform. The launch was ahead of schedule and serves as a testament to the execution of our product roadmap."

Sherri Luther, Chief Financial Officer, said, "We achieved significant improvements across our key financial metrics in 2019. For the full year 2019, GAAP diluted EPS increased 252% compared to the full year 2018 and improved 300% in Q4 2019 as compared to Q4 2018. We increased cash flow from operations by 141% for the full year 2019, continuing our focus on cash generation. Our improved financial performance allowed us to significantly reduce our leverage ratio to 1.3, as defined in our credit agreement, compared to a leverage ratio of 3.0 in the year ago fourth quarter. We remain focused on profitability and cash generation as we drive additional progress towards our target model."

Selected Fourth Quarter and Full Year 2019 Financial Results and Comparisons (in thousands, except per share data)

GAAP Financial Results (unaudited)

| | Q4 2019 | Q3 2019 | Q4 2018 | Q/Q | Y/Y | FY 2019 | FY 2018 | FY/FY |
|---------------------------------------|------------|------------|------------|----------|-----------|------------|-------------|-----------|
| Revenue | \$ 100,237 | \$ 103,469 | \$ 95,977 | (3.1%) | + 4.4% | \$ 404,093 | \$ 398,799 | + 1.3% |
| Gross Margin % | 59.2% | 59.4% | 56.6% | (20) bps | + 260 bps | 59.0% | 55.0% | + 400 bps |
| R&D Expense % | 19.5% | 19.4% | 20.1% | + 10 bps | (60) bps | 19.5% | 20.7% | (120) bps |
| SG&A Expense % | 20.9% | 20.4% | 22.1% | + 50 bps | (120) bps | 20.4% | 22.8% | (240) bps |
| Operating Expense | \$ 43,802 | \$ 44,751 | \$ 56,026 | (2.1%) | (21.8%) | \$ 179,381 | \$ 222,559 | (19.4%) |
| Operating Income (Loss) | \$ 15,491 | \$ 16,688 | \$ (1,720) | (7.2%) | n/m | \$ 59,041 | \$ (3,120) | n/m |
| Net Income (Loss) | \$ 13,987 | \$ 13,539 | \$ (7,121) | + 3.3% | n/m | \$ 43,493 | \$ (26,322) | n/m |
| Net Income (Loss) per Share - Basic | \$ 0.10 | \$ 0.10 | \$ (0.05) | — | + \$0.15 | \$ 0.33 | \$ (0.21) | + \$0.54 |
| Net Income (Loss) per Share - Diluted | \$ 0.10 | \$ 0.10 | \$ (0.05) | — | + \$0.15 | \$ 0.32 | \$ (0.21) | + \$0.53 |

Non-GAAP* Financial Results (unaudited)

| | Q4 2019 | Q3 2019 | Q4 2018 | Q/Q | Y/Y | FY 2019 | FY 2018 | FY/FY |
|--------------------------------|------------|------------|-----------|----------|-----------|------------|------------|-----------|
| Revenue | \$ 100,237 | \$ 103,469 | \$ 95,977 | (3.1%) | + 4.4% | \$ 404,093 | \$ 398,799 | + 1.3% |
| Gross Margin % | 59.6% | 59.8% | 56.7% | (20) bps | + 290 bps | 59.3% | 57.2% | + 210 bps |
| R&D Expense % | 17.9% | 17.8% | 18.7% | + 10 bps | (80) bps | 18.1% | 19.6% | (150) bps |
| SG&A Expense % | 17.4% | 16.9% | 19.9% | + 50 bps | (250) bps | 17.5% | 20.7% | (320) bps |
| Operating Expense | \$ 35,343 | \$ 35,883 | \$ 37,814 | (1.5%) | (6.5%) | \$ 144,705 | \$ 161,597 | (10.5%) |
| Operating Income | \$ 24,390 | \$ 26,009 | \$ 16,620 | (6.2%) | + 46.8% | \$ 94,801 | \$ 66,611 | + 42.3% |
| Net Income | \$ 22,897 | \$ 22,943 | \$ 11,131 | (0.2%) | + 105.7% | \$ 81,488 | \$ 43,409 | + 87.7% |
| Net Income per Share - Basic | \$ 0.17 | \$ 0.17 | \$ 0.09 | — | + \$0.08 | \$ 0.62 | \$ 0.34 | + \$0.28 |
| Net Income per Share - Diluted | \$ 0.17 | \$ 0.17 | \$ 0.08 | — | + \$0.09 | \$ 0.59 | \$ 0.33 | + \$0.26 |

* GAAP represents U.S. Generally Accepted Accounting Principles. Non-GAAP represents GAAP excluding the impact of certain activities which the Company's management excludes in analyzing the Company's operating results and in understanding trends in the Company's earnings. For a reconciliation of GAAP to non-GAAP results, see accompanying tables "Reconciliation of U.S. GAAP to Non-GAAP Financial Measures."

2019 Highlights

- **Improved Financial Performance and Increased Profitability:** Increased net income per diluted share on a GAAP basis to \$0.32 in the full year 2019 from a loss of \$0.21 in the full year 2018, or \$0.59 and \$0.33, respectively, on a non-GAAP basis, with a 400 basis point improvement in gross margin on a GAAP basis and a 210 basis point improvement on a non-GAAP basis.
- **Debt Refinance and De-lever:** Total full year 2019 debt payments of \$117 million, which reduced the leverage ratio to 1.3 compared to 3.0 at the end of 2018, as defined in the credit agreement. The Company reduced the interest rate by a total of 300 basis points in 2019.
- **Nexus™ Next Generation FDSOI Platform and CrossLink-NX™ FPGA Launched:** Nexus, Lattice's next generation 28nm FDSOI platform, launched on December 10, 2019, ahead of schedule. Based on FDSOI technology, the Nexus platform delivers up to a 75% reduction in power versus competitors' products. Lattice's CrossLink-NX™, the first FPGA developed on Lattice's Nexus platform, provides the small form factor, reliability, and performance that developers need to create innovative embedded vision and AI solutions for communications, compute, industrial, automotive, and consumer systems.

- **Enhanced Radiant™ Software Design Tool:** Lattice launched the latest version of its popular software design tool for FPGAs, Lattice Radiant™ 2.0. The updated design tool offers new features that make it faster and easier than ever to develop Lattice FPGA-based designs.
- **Launched New MachXO3D™ Platform Security Product:** The new platform security product was developed specifically for customers seeking to simplify the implementation of robust, comprehensive and flexible hardware-based security. MachXO3D can protect, detect and recover firmware components from unauthorized firmware access at every stage of a system's lifecycle, from the point of manufacturing all the way to the system's end of life. The National Institute of Standards and Technology ("NIST") independently certified that Lattice's MachXO3D is compliant with the U.S. government's standard for cryptographic software.
- **Higher Performance, Award-Winning sensAI™ Solutions Stack:** Lattice launched major performance and design flow enhancements to its award-winning AI solutions stack. The Lattice sensAI stack provides a comprehensive hardware and software solution for implementing low power, always-on AI functionality in smart devices operating at the Edge. sensAI was awarded the EDN Hot 100 Product Award, Tools & Development Category, the AI Breakthrough Award, Best AI-Based Solution for Engineering, the Electronics Industry Award, and the Internet of Things Product of the Year.

Business Outlook - First Quarter of 2020:

- Revenue for the first quarter of 2020 is expected to be between \$96 million and \$104 million.
- Gross margin percentage for the first quarter of 2020 is expected to be 59.5% plus or minus 1% on a non-GAAP basis.
- Total operating expenses for the first quarter of 2020 are expected to be between \$36 million and \$37 million on a non-GAAP basis.

Non-GAAP Financial Measures: In addition to financial measures prepared in accordance with generally accepted accounting principles (GAAP), this earnings release makes reference to non-GAAP financial measures. With respect to the outlook for the first quarter of 2020, certain items that affect GAAP measurement of financial measures are out of the Company's control and/or cannot be reasonably predicted. Consequently, the Company is unable to provide a reasonable estimate of GAAP measurement for guidance or a corresponding reconciliation to GAAP for the quarter. Additional information regarding the reasons the Company uses non-GAAP measures, a reconciliation of these measures to the most directly comparable GAAP measures, and other information relating to these measures are included below, following the GAAP financial information.

Investor Conference Call / Webcast Details:

Lattice Semiconductor will review the Company's financial results for the fiscal fourth quarter and full year 2019, and business outlook on Tuesday, February 11 at 5:00 p.m. Eastern Time. The dial-in number for the live audio call is 1-888-684-5603 or 1-918-398-4852 with conference identification number 6890144. A live webcast of the conference call will also be available on the investor relations section of www.latticesemi.com. The Company's financial guidance will be limited to the comments on its public quarterly earnings call and the public business outlook statements contained in this press release.

Forward-Looking Statements Notice:

The foregoing paragraphs contain forward-looking statements that 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. Such forward-looking statements include, but are not limited to, statements relating to: our belief that we will increase our cadence of new hardware products, solutions, and software stacks, including the launch of Nexus, our next-generation FPGA platform; our belief that we achieve our financial model targets; and the statements under the heading “Business Outlook - First Quarter of 2020.” Other forward-looking statements may be indicated by words such as “will,” “could,” “should,” “would,” “may,” “expect,” “plan,” “project,” “anticipate,” “intend,” “forecast,” “future,” “believe,” “estimate,” “predict,” “propose,” “potential,” “continue” or the negative of these terms or other comparable terminology.

Estimates of future revenue are inherently uncertain due to such factors such as global economic conditions which may affect customer demand, pricing pressures, competitive actions, and international trade disputes and sanctions. Actual gross margin percentage and operating expenses could vary from the estimates on the basis of, among other things, changes in revenue levels, changes in product pricing and mix, changes in wafer, assembly, test and other costs, variations in manufacturing yields, the failure to sustain operational improvements, and the actual amount of compensation charges due to stock price changes. Actual results may differ materially from our expectations and are subject to risks and uncertainties that relate more broadly to our overall business, including those risks more fully described in Lattice’s filings with the SEC including its Annual Report on Form 10-K for the fiscal year ended December 29, 2018, and Lattice’s quarterly reports filed on Form 10-Q. Lattice believes these and other risks and uncertainties could cause actual results to differ materially from the forward-looking statements. You should not unduly rely on forward-looking statements because actual results could differ materially from those expressed in any forward-looking statements. In addition, any forward-looking statement applies only as of the date on which it is made. The Company does not intend to update or revise any forward-looking statements, whether as a result of events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

Non-GAAP Financial Measures:

Included within this press release and the accompanying tables and notes are certain non-GAAP financial measures that supplement the Company’s consolidated financial information prepared in accordance with U.S. GAAP. The non-GAAP measures presented exclude charges and adjustments primarily related to stock-based compensation, restructuring plans and related charges, acquisition-related charges, amortization and impairment of acquired intangible assets, inventory adjustments related to restructured operations, loss on refinancing of long-term debt, and the estimated tax effect of these items. These charges and adjustments are a result of periodic or non-core operating activities of the Company. The Company describes these non-GAAP financial measures and reconciles them to the most directly comparable GAAP measures in the tables and notes attached to this press release.

The Company’s management believes that these non-GAAP financial measures provide an additional and useful way of viewing aspects of our performance that, when viewed in conjunction with our GAAP results, provide a more comprehensive understanding of the various factors and trends affecting our ongoing financial performance and operating results than GAAP measures alone. Management also uses these non-GAAP measures for strategic and business decision-making, internal budgeting, forecasting, and resource allocation processes and believes that investors should have access to similar data.

These non-GAAP measures are included solely for informational and comparative purposes and are not meant as a substitute for GAAP and should be considered together with the consolidated financial information located in the tables attached to this press release.

About Lattice Semiconductor Corporation:

Lattice Semiconductor (NASDAQ: LSCC) is the low power programmable leader. We solve customer problems across the network, from the Edge to the Cloud, in the growing communications, computing, industrial, automotive and consumer markets. Our technology, long-standing relationships, and commitment to world-class support lets our customers quickly and easily unleash their innovation to create a smart, secure and connected world.

For more information about Lattice, please visit www.latticesemi.com. You can also follow us via [LinkedIn](#), [Twitter](#), [Facebook](#), [YouTube](#), [WeChat](#), [Weibo](#) or [Youku](#).

###

Lattice Semiconductor Corporation
Consolidated Statements of Operations
(in thousands, except per share data)
(unaudited)

| | Three Months Ended | | | Twelve Months Ended | |
|--|----------------------|-----------------------|----------------------|----------------------|----------------------|
| | December 28, 2019 | September 28, 2019 | December 29, 2018 | December 28, 2019 | December 29, 2018 |
| Revenue | \$ 100,237 | \$ 103,469 | \$ 95,977 | \$ 404,093 | \$ 398,799 |
| Cost of sales | 40,944 | 42,030 | 41,671 | 165,671 | 179,360 |
| Gross margin | 59,293 | 61,439 | 54,306 | 238,422 | 219,439 |
| Operating expenses: | | | | | |
| Research and development | 19,543 | 20,032 | 19,296 | 78,617 | 82,449 |
| Selling, general, and administrative | 20,924 | 21,078 | 21,168 | 82,542 | 91,054 |
| Amortization of acquired intangible assets | 3,390 | 3,389 | 3,708 | 13,558 | 17,690 |
| Restructuring | (55) | 252 | 11,854 | 4,664 | 17,349 |
| Impairment of acquired intangible assets | — | — | — | — | 12,486 |
| Acquisition related charges | — | — | — | — | 1,531 |
| Total operating expenses | 43,802 | 44,751 | 56,026 | 179,381 | 222,559 |
| Income (loss) from operations | 15,491 | 16,688 | (1,720) | 59,041 | (3,120) |
| Interest expense | (1,184) | (2,022) | (5,018) | (11,731) | (20,600) |
| Other expense, net | (228) | (61) | (3) | (2,245) | (249) |
| Income (loss) before income taxes | 14,079 | 14,605 | (6,741) | 45,065 | (23,969) |
| Income tax expense | 92 | 1,066 | 380 | 1,572 | 2,353 |
| Net income (loss) | \$ 13,987 | \$ 13,539 | \$ (7,121) | \$ 43,493 | \$ (26,322) |
| Net income (loss) per share: | | | | | |
| Basic | \$ 0.10 | \$ 0.10 | \$ (0.05) | \$ 0.33 | \$ (0.21) |
| Diluted | \$ 0.10 | \$ 0.10 | \$ (0.05) | \$ 0.32 | \$ (0.21) |
| Shares used in per share calculations: | | | | | |
| Basic | 133,691 | 132,997 | 129,521 | 132,471 | 126,564 |
| Diluted | 138,196 | 138,894 | 129,521 | 137,274 | 126,564 |

Lattice Semiconductor Corporation
Condensed Consolidated Balance Sheets
(in thousands)
(unaudited)

| | December 28, 2019 | December 29, 2018 |
|---|----------------------|----------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 118,081 | \$ 119,051 |
| Short-term marketable securities | — | 9,624 |
| Accounts receivable, net | 64,917 | 60,890 |
| Inventories | 54,980 | 67,096 |
| Other current assets | 24,452 | 27,762 |
| Total current assets | 262,430 | 284,423 |
| Property and equipment, net | 39,230 | 34,883 |
| Operating lease right-of-use assets | 23,591 | — |
| Intangible assets, net | 6,977 | 21,325 |
| Goodwill | 267,514 | 267,514 |
| Deferred income taxes | 478 | 215 |
| Other long-term assets | 11,796 | 15,327 |
| | \$ 612,016 | \$ 623,687 |
| Liabilities and Stockholders' Equity | | |
| Current liabilities: | | |
| Accounts payable and other accrued liabilities | \$ 73,650 | \$ 61,128 |
| Current portion of long-term debt | 21,474 | 8,290 |
| Current portion of operating lease liabilities | 4,686 | — |
| Total current liabilities | 99,810 | 69,418 |
| Long-term debt, net of current portion | 125,072 | 251,357 |
| Long-term operating lease liabilities, net of current portion | 21,438 | — |
| Other long-term liabilities | 38,028 | 44,455 |
| Total liabilities | 284,348 | 365,230 |
| Stockholders' equity | 327,668 | 258,457 |
| | \$ 612,016 | \$ 623,687 |

Lattice Semiconductor Corporation
Condensed Consolidated Statements of Cash Flows
(in thousands)
(unaudited)

| | Twelve Months Ended | |
|--|----------------------|----------------------|
| | December 28, 2019 | December 29, 2018 |
| Cash flows from operating activities: | | |
| Net income (loss) | \$ 43,493 | \$ (26,322) |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: | | |
| Depreciation and amortization | 33,056 | 39,261 |
| Impairment of acquired intangible assets | — | 12,486 |
| Stock-based compensation expense | 18,899 | 13,646 |
| Other non-cash adjustments | 10,294 | 2,151 |
| Net changes in assets and liabilities | 18,395 | 10,236 |
| Net cash provided by operating activities | <u>124,137</u> | <u>51,458</u> |
| Cash flows from investing activities: | | |
| Capital expenditures | (15,590) | (8,384) |
| Other investing activities | 54 | (12,726) |
| Net cash used in investing activities | <u>(15,536)</u> | <u>(21,110)</u> |
| Cash flows from financing activities: | | |
| Proceeds from issuance of long-term debt | 206,500 | — |
| Original issue discount and debt issuance costs | (2,086) | — |
| Repayment of long-term debt | (321,408) | (43,759) |
| Net cash flows related to stock compensation exercises | 7,082 | 26,918 |
| Net cash used in financing activities | <u>(109,912)</u> | <u>(16,841)</u> |
| Effect of exchange rate change on cash | 341 | (1,271) |
| Net (decrease) increase in cash and cash equivalents | (970) | 12,236 |
| Beginning cash and cash equivalents | 119,051 | 106,815 |
| Ending cash and cash equivalents | <u>\$ 118,081</u> | <u>\$ 119,051</u> |
| Supplemental disclosure of cash flow information and non-cash investing and financing activities: | | |
| Interest paid | \$ 10,995 | \$ 18,607 |
| Income taxes paid, net of refunds | \$ 3,393 | \$ 3,054 |

Lattice Semiconductor Corporation
Supplemental Historical Financial Information
(unaudited)

| | Three Months Ended | | | Twelve Months Ended | |
|------------------------------------|----------------------|-----------------------|----------------------|----------------------|----------------------|
| | December 28, 2019 | September 28, 2019 | December 29, 2018 | December 28, 2019 | December 29, 2018 |
| Balance Sheet Information | | | | | |
| A/R Days Revenue Outstanding (DSO) | 59 | 42 | 58 | | |
| Inventory Days (DIO) | 123 | 130 | 147 | | |
| Revenue% (by Geography) | | | | | |
| Asia | 73% | 77% | 74% | 74% | 75% |
| Europe (incl. Africa) | 11% | 11% | 10% | 12% | 11% |
| Americas | 16% | 12% | 16% | 14% | 14% |
| Revenue% (by End Market) | | | | | |
| Communications and Computing | 38% | 40% | 34% | 39% | 31% |
| Industrial and Automotive | 39% | 36% | 37% | 37% | 39% |
| Consumer | 18% | 18% | 22% | 19% | 25% |
| Licensing and Services | 5% | 6% | 7% | 5% | 5% |
| Revenue% (by Channel) | | | | | |
| Distribution | 84% | 81% | 76% | 82% | 83% |
| Direct | 16% | 19% | 24% | 18% | 17% |

Lattice Semiconductor Corporation
Reconciliation of U.S. GAAP to Non-GAAP Financial Measures
(in thousands, except per share data)
(unaudited)

| | Three Months Ended | | | Twelve Months Ended | |
|---|----------------------|-----------------------|----------------------|----------------------|----------------------|
| | December 28, 2019 | September 28, 2019 | December 29, 2018 | December 28, 2019 | December 29, 2018 |
| Gross Margin Reconciliation | | | | | |
| GAAP Gross margin | \$ 59,293 | \$ 61,439 | \$ 54,306 | \$ 238,422 | \$ 219,439 |
| Stock-based compensation - gross margin | 440 | 453 | 288 | 1,422 | 940 |
| Inventory adjustment related to restructured operations | — | — | (160) | (338) | 7,829 |
| Non-GAAP Gross margin | \$ 59,733 | \$ 61,892 | \$ 54,434 | \$ 239,506 | \$ 228,208 |
| Gross Margin % Reconciliation | | | | | |
| GAAP Gross margin % | 59.2 % | 59.4 % | 56.6 % | 59.0 % | 55.0 % |
| Cumulative effect of non-GAAP Gross Margin adjustments | 0.4 % | 0.4 % | 0.1 % | 0.3 % | 2.2 % |
| Non-GAAP Gross margin % | 59.6 % | 59.8 % | 56.7 % | 59.3 % | 57.2 % |
| Research and Development Expense % (R&D Expense %) Reconciliation | | | | | |
| GAAP R&D Expense % | 19.5 % | 19.4 % | 20.1 % | 19.5 % | 20.7 % |
| Stock-based compensation - R&D | (1.6)% | (1.6)% | (1.4)% | (1.4)% | (1.1)% |
| Non-GAAP R&D Expense % | 17.9 % | 17.8 % | 18.7 % | 18.1 % | 19.6 % |
| Selling, General, and Administrative Expense % (SG&A Expense %) Reconciliation | | | | | |
| GAAP SG&A Expense % | 20.9 % | 20.4 % | 22.1 % | 20.4 % | 22.8 % |
| Stock-based compensation - SG&A | (3.5)% | (3.5)% | (2.2)% | (2.9)% | (2.1)% |
| Non-GAAP SG&A Expense % | 17.4 % | 16.9 % | 19.9 % | 17.5 % | 20.7 % |
| Operating Expenses Reconciliation | | | | | |
| GAAP Operating expenses | \$ 43,802 | \$ 44,751 | \$ 56,026 | \$ 179,381 | \$ 222,559 |
| Stock-based compensation - operations | (5,124) | (5,227) | (3,450) | (17,477) | (12,706) |
| Amortization of acquired intangible assets | (3,390) | (3,389) | (3,708) | (13,558) | (17,690) |
| Restructuring charges | 55 | (252) | (11,854) | (4,664) | (17,349) |
| Impairment of acquired intangible assets | — | — | 800 | 1,023 | (11,686) |
| Acquisition related charges | — | — | — | — | (1,531) |
| Non-GAAP Operating expenses | \$ 35,343 | \$ 35,883 | \$ 37,814 | \$ 144,705 | \$ 161,597 |
| Income from Operations Reconciliation | | | | | |
| GAAP Income (loss) from operations | \$ 15,491 | \$ 16,688 | \$ (1,720) | \$ 59,041 | \$ (3,120) |
| Stock-based compensation - gross margin | 440 | 453 | 288 | 1,422 | 940 |
| Inventory adjustment related to restructured operations | — | — | (160) | (338) | 7,829 |
| Stock-based compensation - operations | 5,124 | 5,227 | 3,450 | 17,477 | 12,706 |
| Amortization of acquired intangible assets | 3,390 | 3,389 | 3,708 | 13,558 | 17,690 |
| Restructuring charges | (55) | 252 | 11,854 | 4,664 | 17,349 |
| Impairment of acquired intangible assets | — | — | (800) | (1,023) | 11,686 |
| Acquisition related charges | — | — | — | — | 1,531 |
| Non-GAAP Income from operations | \$ 24,390 | \$ 26,009 | \$ 16,620 | \$ 94,801 | \$ 66,611 |
| Income from Operations % Reconciliation | | | | | |
| GAAP Income (loss) from operations % | 15.5 % | 16.1 % | (1.8)% | 14.6 % | (0.8)% |
| Cumulative effect of non-GAAP Gross Margin and Operating adjustments | 8.8 % | 9.0 % | 19.1 % | 8.9 % | 17.5 % |
| Non-GAAP Income from operations % | 24.3 % | 25.1 % | 17.3 % | 23.5 % | 16.7 % |

Lattice Semiconductor Corporation
Reconciliation of U.S. GAAP to Non-GAAP Financial Measures
(in thousands, except per share data)
(unaudited)

| | Three Months Ended | | | Twelve Months Ended | |
|---|----------------------|-----------------------|----------------------|----------------------|----------------------|
| | December 28, 2019 | September 28, 2019 | December 29, 2018 | December 28, 2019 | December 29, 2018 |
| Other Expense, Net Reconciliation | | | | | |
| GAAP Other expense, net | \$ (228) | \$ (61) | \$ (3) | \$ (2,245) | \$ (249) |
| Loss on refinancing of long-term debt | — | — | — | 2,235 | — |
| Non-GAAP Other expense, net | \$ (228) | \$ (61) | \$ (3) | \$ (10) | \$ (249) |
| Income Tax Expense Reconciliation | | | | | |
| GAAP Income tax expense | \$ 92 | \$ 1,066 | \$ 380 | \$ 1,572 | \$ 2,353 |
| Estimated tax effect of non-GAAP adjustments (1) | (11) | (83) | 88 | — | — |
| Non-GAAP Income tax expense | \$ 81 | \$ 983 | \$ 468 | \$ 1,572 | \$ 2,353 |
| Net Income Reconciliation | | | | | |
| GAAP Net income (loss) | \$ 13,987 | \$ 13,539 | \$ (7,121) | \$ 43,493 | \$ (26,322) |
| Stock-based compensation - gross margin | 440 | 453 | 288 | 1,422 | 940 |
| Inventory adjustment related to restructured operations | — | — | (160) | (338) | 7,829 |
| Stock-based compensation - operations | 5,124 | 5,227 | 3,450 | 17,477 | 12,706 |
| Amortization of acquired intangible assets | 3,390 | 3,389 | 3,708 | 13,558 | 17,690 |
| Restructuring charges | (55) | 252 | 11,854 | 4,664 | 17,349 |
| Impairment of acquired intangible assets | — | — | (800) | (1,023) | 11,686 |
| Acquisition related charges | — | — | — | — | 1,531 |
| Loss on refinancing of long-term debt | — | — | — | 2,235 | — |
| Estimated tax effect of non-GAAP adjustments (1) | 11 | 83 | (88) | — | — |
| Non-GAAP Net income | \$ 22,897 | \$ 22,943 | \$ 11,131 | \$ 81,488 | \$ 43,409 |
| Net Income Per Share Reconciliation | | | | | |
| GAAP Net income (loss) per share - basic | \$ 0.10 | \$ 0.10 | \$ (0.05) | \$ 0.33 | \$ (0.21) |
| Cumulative effect of Non-GAAP adjustments | 0.07 | 0.07 | 0.14 | 0.29 | 0.55 |
| Non-GAAP Net income per share - basic | \$ 0.17 | \$ 0.17 | \$ 0.09 | \$ 0.62 | \$ 0.34 |
| GAAP Net income (loss) per share - diluted | \$ 0.10 | \$ 0.10 | \$ (0.05) | \$ 0.32 | \$ (0.21) |
| Cumulative effect of Non-GAAP adjustments | 0.07 | 0.07 | 0.13 | 0.27 | 0.54 |
| Non-GAAP Net income per share - diluted | \$ 0.17 | \$ 0.17 | \$ 0.08 | \$ 0.59 | \$ 0.33 |
| Shares used in per share calculations: | | | | | |
| Basic | 133,691 | 132,997 | 129,521 | 132,471 | 126,564 |
| Diluted - GAAP (2) | 138,196 | 138,894 | 129,521 | 137,274 | 126,564 |
| Diluted - Non-GAAP (2) | 138,196 | 138,894 | 132,471 | 137,274 | 129,766 |

(1) We calculate non-GAAP tax expense by applying our tax provision model to year-to-date and projected income after adjusting for non-GAAP items. The difference between calculated values for GAAP and non-GAAP tax expense has been included as the "Estimated tax effect of non-GAAP adjustments."

(2) Diluted shares are calculated using the GAAP treasury stock method. In a loss position, diluted shares equal basic shares.