

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 26, 2020

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)

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

5555 NE Moore Court, Hillsboro, OR
(Address of principal executive offices)

97124
(Zip Code)

(503) 268-8000
(Registrant's telephone number, including area code)

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 (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 that 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 ☒
Non-accelerated filer ☐

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 26, 2020

136,155,870

LATTICE SEMICONDUCTOR CORPORATION
QUARTERLY REPORT ON FORM 10-Q
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Note Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q contains 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. We use words or phrases such as “anticipate,” “believe,” “could,” “estimate,” “expect,” “intend,” “plan,” “possible,” “predict,” “projects,” “may,” “will,” “should,” “continue,” “ongoing,” “future,” “potential,” and similar words or phrases to identify forward-looking statements.

Forward-looking statements include, but are not limited to, statements about: our target or expected financial performance and our ability to achieve those results; future financial results or accounting treatments; the potential impact of the COVID-19 pandemic, including actions by governments, businesses, and individuals in response to the situation, on consumer, industrial, and financial markets, our business operations, supply chain and partners, financial performance, results of operations, financial position, and the achievement of our strategic objectives; our use of cash; our gross margin growth and our strategies to achieve gross margin growth and other financial results; our opportunities to increase our addressable market; our expectations and strategies regarding market trends and opportunities, including market segment drivers such as 5G infrastructure deployments, cloud and enterprise servers, client computing platforms, industrial Internet of Things, factory automation, automotive electronics, smart homes and prosumers; our judgments involved in accounting matters; actions we may take regarding the design of our internal control over financial reporting; our expectations regarding product offerings; our expectations regarding our customer base; our future investments in research and development and our research and development expense efficiency; the expected costs of our restructuring plans; our expectations regarding taxes, including unrecognized tax benefits, and tax adjustments and allowances; our beliefs regarding the adequacy of our liquidity, capital resources and facilities; whether we will pursue future stock repurchases and how any future repurchases will be funded; and our beliefs regarding legal proceedings.

These forward-looking statements are based on estimates and assumptions that are subject to risks and uncertainties that could cause actual results to differ materially from those statements 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 include the effects of the COVID-19 pandemic and the actions by governments, businesses, and individuals in response to the situation, the effects of which may give rise to or amplify the risks associated with many of these factors listed here; global economic conditions and uncertainty; and other factors more fully described herein or 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 Part I, Item 1A, “Risk Factors,” in our Annual Report on Form 10-K for the fiscal year ended December 28, 2019 and any additional or updated risk factors discussed in any subsequent Quarterly Report on Form 10-Q filed since that date.

You should not unduly rely on forward-looking statements because our actual results could differ materially from those expressed by us. In addition, any forward-looking statement applies only as of the date of this filing. We do not plan to, and undertake no obligation to, update any forward-looking statements to reflect new information or new events, circumstances or developments, or otherwise.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

LATTICE SEMICONDUCTOR CORPORATION CONSOLIDATED STATEMENTS OF OPERATIONS (unaudited)

	Three Months Ended		Nine Months Ended	
	September 26, 2020	September 28, 2019	September 26, 2020	September 28, 2019
<i>(In thousands, except per share data)</i>				
Revenue	\$ 103,042	\$ 103,469	\$ 300,947	\$ 303,856
Cost of revenue	40,736	42,030	120,502	124,727
Gross margin	62,306	61,439	180,445	179,129
Operating expenses:				
Research and development	22,439	20,032	66,590	59,074
Selling, general, and administrative	23,758	21,078	70,797	61,618
Amortization of acquired intangible assets	603	3,389	3,846	10,168
Restructuring charges	2,692	252	4,178	4,719
Total operating expenses	49,492	44,751	145,411	135,579
Income from operations	12,814	16,688	35,034	43,550
Interest expense	(792)	(2,022)	(2,914)	(10,547)
Other expense, net	(70)	(61)	(83)	(2,017)
Income before income taxes	11,952	14,605	32,037	30,986
Income tax (benefit) expense	(655)	1,066	634	1,480
Net income	\$ 12,607	\$ 13,539	\$ 31,403	\$ 29,506
Net income per share:				
Basic	\$ 0.09	\$ 0.10	\$ 0.23	\$ 0.22
Diluted	\$ 0.09	\$ 0.10	\$ 0.22	\$ 0.21
Shares used in per share calculations:				
Basic	135,598	132,997	134,903	132,065
Diluted	141,524	138,894	140,763	137,679

See Accompanying Notes to Unaudited Consolidated Financial Statements.

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LATTICE SEMICONDUCTOR CORPORATION CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (unaudited)

	Three Months Ended		Nine Months Ended	
	September 26, 2020	September 28, 2019	September 26, 2020	September 28, 2019
<i>(In thousands)</i>				
Net income	\$ 12,607	\$ 13,539	\$ 31,403	\$ 29,506
Other comprehensive income:				
Translation adjustment, net of tax	859	(93)	899	(7)
Change in actuarial valuation of defined benefit pension	(507)	—	(507)	—
Unrealized gain related to marketable securities, net of tax	—	—	—	42
Reclassification adjustment for gains related to marketable securities included in Other income (expense), net of tax	—	—	—	(53)
Comprehensive income	\$ 12,959	\$ 13,446	\$ 31,795	\$ 29,488

See Accompanying Notes to Unaudited Consolidated Financial Statements.

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LATTICE SEMICONDUCTOR CORPORATION
CONSOLIDATED BALANCE SHEETS
(unaudited)

	September 26, 2020	December 28, 2019
<i>(In thousands, except share and par value data)</i>		
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 182,268	\$ 118,081
Accounts receivable, net of allowance for credit losses	72,989	64,917
Inventories	59,488	54,980
Prepaid expenses and other current assets	24,205	24,452
Total current assets	338,950	262,430
Property and equipment, less accumulated depreciation of \$108,604 at September 26, 2020 and \$125,990 at December 28, 2019	39,782	39,230
Operating lease right-of-use assets	21,614	23,591
Intangible assets, net	3,496	6,977
Goodwill	267,514	267,514
Deferred income taxes	483	478
Other long-term assets	10,592	11,796
Total assets	\$ 682,431	\$ 612,016
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	\$ 59,742	\$ 60,255
Accrued payroll obligations	15,148	13,404
Current portion of long-term debt	8,382	21,474
Current portion of operating lease liabilities	4,562	4,686
Total current liabilities	87,834	99,819
Long-term debt, net of current portion	162,215	125,072
Long-term operating lease liabilities, net of current portion	19,505	21,438
Other long-term liabilities	35,984	38,028
Total liabilities	305,538	284,357
Contingencies (Note 11)	—	—
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; 136,078,000 shares issued and outstanding as of September 26, 2020 and 133,883,000 shares issued and outstanding as of December 28, 2019	1,361	1,339
Additional paid-in capital	779,630	762,213
Accumulated deficit	(401,887)	(433,290)
Accumulated other comprehensive loss	(2,211)	(2,603)
Total stockholders' equity	376,893	327,659
Total liabilities and stockholders' equity	\$ 682,431	\$ 612,016

See Accompanying Notes to Unaudited Consolidated Financial Statements.

LATTICE SEMICONDUCTOR CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)

	Nine Months Ended	
	September 26, 2020	September 28, 2019
<i>(In thousands)</i>		
Cash flows from operating activities:		
Net income	\$ 31,403	\$ 29,506
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	19,263	24,682
Stock-based compensation expense	30,228	13,335
Reduction in the carrying amount of right-of-use assets	4,464	4,372
Amortization of debt issuance costs and discount	300	1,539
Impairment of operating lease right-of-use asset (recorded in Restructuring charges)	—	977
Loss on refinancing of long-term debt	—	2,235
Other non-cash adjustments	(101)	(63)
Changes in assets and liabilities:		
Accounts receivable, net	(8,072)	13,457
Inventories	(4,508)	7,424
Prepaid expenses and other assets	(3,516)	(8,741)
Accounts payable and accrued expenses	1,861	(196)
Accrued payroll obligations	1,744	2,063

Operating lease liabilities, current and long-term portions	(4,331)	(5,571)
Income taxes payable	223	(202)
Net cash provided by operating activities	68,958	84,817
Cash flows from investing activities:		
Capital expenditures	(9,781)	(11,729)
Cash paid for software licenses	(6,850)	(5,745)
Proceeds from sales of and maturities of short-term marketable securities	—	9,655
Net cash used in investing activities	(16,631)	(7,819)
Cash flows from financing activities:		
Restricted stock unit tax withholdings	(19,934)	(7,813)
Proceeds from issuance of common stock	7,145	16,178
Proceeds from issuance of long-term debt	50,000	206,500
Original issue discount and debt issuance costs	—	(2,086)
Repayment of debt	(26,250)	(311,408)
Net cash provided by (used in) financing activities	10,961	(98,629)
Effect of exchange rate change on cash	899	(7)
Net increase in cash and cash equivalents	64,187	(21,638)
Beginning cash and cash equivalents	118,081	119,051
Ending cash and cash equivalents	\$ 182,268	\$ 97,413
Supplemental disclosure of cash flow information and non-cash investing and financing activities:		
Interest paid	\$ 2,849	\$ 9,932
Operating lease payments	\$ 5,786	\$ 6,540
Income taxes paid, net of refunds	\$ 2,317	\$ 1,922
Accrued purchases of plant and equipment	\$ 549	\$ 1,841
Operating lease right-of-use assets obtained in exchange for lease obligations	\$ 2,274	\$ 404

See Accompanying Notes to Unaudited Consolidated Financial Statements.

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LATTICE SEMICONDUCTOR CORPORATION

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(unaudited)

The following summarizes the changes in total equity for the nine month period ended September 26, 2020:

	Common Stock (\$0.01 par value)		Additional Paid-in capital	Accumulated deficit	Accumulated other comprehensive loss	Total
	Shares	Amount				
(In thousands, except par value data)						
Balances, December 28, 2019	133,883	\$ 1,339	\$ 762,213	\$ (433,290)	\$ (2,603)	\$ 327,659
Net income for the nine months ended September 26, 2020	—	—	—	31,403	—	31,403
Common stock issued in connection with the exercise of stock options, ESPP and vested RSUs, net of shares withheld for employee taxes	2,195	22	(12,811)	—	—	(12,789)
Stock-based compensation related to stock options, ESPP and RSUs	—	—	30,228	—	—	30,228
Translation adjustments, net of tax	—	—	—	—	899	899
Change in actuarial valuation of defined benefit pension	—	—	—	—	(507)	(507)
Balances, September 26, 2020	136,078	\$ 1,361	\$ 779,630	\$ (401,887)	\$ (2,211)	\$ 376,893

The following summarizes the changes in total equity for the nine month period ended September 28, 2019:

	Common Stock(\$0.01 par value)		Additional Paid-in capital	Accumulated deficit	Accumulated other comprehensive loss	Total
	Shares	Amount				
(In thousands, except par value data)						
Balances, December 29, 2018	129,728	\$ 1,297	\$ 736,274	\$ (476,783)	\$ (2,331)	\$ 258,457
Net income for the nine months ended September 28, 2019	—	—	—	29,506	—	29,506
Common stock issued in connection with the exercise of stock options, ESPP and vested RSUs, net of shares withheld for employee taxes	3,774	38	8,327	—	—	8,365
Stock-based compensation related to stock options, ESPP and RSUs	—	—	13,335	—	—	13,335
Translation adjustments, net of tax	—	—	—	—	(7)	(7)
Unrealized loss related to marketable securities, net of tax	—	—	—	—	42	42
Recognized gain on redemption of marketable securities, previously unrealized	—	—	—	—	(53)	(53)
Balances, September 28, 2019	133,502	\$ 1,335	\$ 757,936	\$ (447,277)	\$ (2,349)	\$ 309,645

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LATTICE SEMICONDUCTOR CORPORATION
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (continued)
(unaudited)

The following summarizes the changes in total equity for the three month period ended September 26, 2020:

(In thousands, except par value data)	Common Stock (\$.01 par value)		Additional Paid-in capital	Accumulated deficit	Accumulated other comprehensive loss	Total
	Shares	Amount				
Balances, June 27, 2020	135,147	\$ 1,351	\$ 779,836	\$ (414,494)	\$ (2,563)	\$ 364,130
Net income for the three months ended September 26, 2020	—	—	—	12,607	—	12,607
Common stock issued in connection with the exercise of stock options, ESPP and vested RSUs, net of shares withheld for employee taxes	931	10	(10,694)	—	—	(10,684)
Stock-based compensation related to stock options, ESPP and RSUs	—	—	10,488	—	—	10,488
Translation adjustments, net of tax	—	—	—	—	859	859
Change in actuarial valuation of defined benefit pension	—	—	—	—	(507)	(507)
Balances, September 26, 2020	<u>136,078</u>	<u>\$ 1,361</u>	<u>\$ 779,630</u>	<u>\$ (401,887)</u>	<u>\$ (2,211)</u>	<u>\$ 376,893</u>

The following summarizes the changes in total equity for the three month period ended September 28, 2019:

(In thousands, except par value data)	Common Stock (\$.01 par value)		Additional Paid-in capital	Accumulated deficit	Accumulated other comprehensive loss	Total
	Shares	Amount				
Balances, June 29, 2019	132,536	\$ 1,325	\$ 756,924	\$ (460,816)	\$ (2,256)	\$ 295,177
Net income for the three months ended September 28, 2019	—	—	—	13,539	—	13,539
Common stock issued in connection with the exercise of stock options, ESPP and vested RSUs, net of shares withheld for employee taxes	966	10	(4,668)	—	—	(4,658)
Stock-based compensation related to stock options, ESPP and RSUs	—	—	5,680	—	—	5,680
Translation adjustments, net of tax	—	—	—	—	(93)	(93)
Balances, September 28, 2019	<u>133,502</u>	<u>\$ 1,335</u>	<u>\$ 757,936</u>	<u>\$ (447,277)</u>	<u>\$ (2,349)</u>	<u>\$ 309,645</u>

See Accompanying Notes to Unaudited Consolidated Financial Statements.

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LATTICE SEMICONDUCTOR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)
Note 1 - Basis of Presentation

Lattice Semiconductor Corporation, a Delaware corporation, and its subsidiaries ("Lattice," the "Company," "we," "us," or "our") develop technologies that we monetize through differentiated programmable logic semiconductor products, system solutions, design services, and licenses. Lattice was founded in 1983 and is headquartered in Hillsboro, Oregon.

Basis of Presentation and Use of Estimates

The accompanying Consolidated Financial Statements are unaudited and have been prepared in accordance with U.S. Generally Accepted Accounting Principles ("U.S. GAAP") and pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). In our opinion, they include all adjustments, consisting only of normal recurring adjustments, necessary for the fair presentation of results for the interim periods. Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. GAAP have been condensed or omitted as permitted by the SEC's rules and regulations for interim reporting. These 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 28, 2019 ("2019 10-K").

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and judgments affecting the amounts reported in our consolidated condensed financial statements and the accompanying notes. The actual results that we experience may differ materially from our estimates. As of September 26, 2020, the extent to which the COVID-19 pandemic will impact our business going forward depends on numerous dynamic factors which we cannot reliably predict. As a result, some of our estimates and assumptions required increased judgment and carry a higher degree of variability and volatility. As the events continue to evolve with respect to the pandemic, our estimates may materially change in future periods.

We describe our accounting methods and practices in more detail in our 2019 10-K. There have been no changes to the significant accounting policies, procedures, or general information described in our 2019 10-K that have had a material impact on our consolidated financial statements and related notes.

Fiscal Reporting Periods

We report based on a 52 or 53-week fiscal year ending on the Saturday closest to December 31. Our fiscal 2020 will be a 53-week year and will end on January 2, 2021, and our fiscal 2019 was a 52-week year that ended December 28, 2019. Our third quarter of fiscal 2020 and third quarter of fiscal 2019 ended on September 26, 2020 and September 28, 2019, respectively. All references to quarterly or nine months ended financial results are references to the results for the relevant 13-week or 39-week fiscal period.

Concentrations of Risk

Distributors have historically accounted for a significant portion of our total revenue. Revenue attributable to distributors as a percentage of total revenue was 82% and 81% for the third quarter of fiscal 2020 and 2019, respectively, and 81% and 82% for the nine months ended September 26, 2020 and September 28, 2019, respectively.

Distributors also account for a substantial portion of our net accounts receivable. Our two largest distributors accounted for 53% and 31% of net accounts receivable at September 26, 2020 and 40% and 38% of net accounts receivable at December 28, 2019. No other distributor or end customer accounted for more than 10% of net accounts receivable at these dates.

Recently Issued Accounting Standards

In December 2019, the FASB issued ASU 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes*, which adds new guidance for accounting for tax law changes, year-to-date losses in interim periods, and determining how to apply the income tax guidance to franchise taxes that are partially based on income, as well as other changes to simplify accounting for income taxes. The ASU is effective for public companies for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020. Entities may early adopt the ASU in any interim period for which financial statements have not yet been issued (or made available for issuance). We are currently assessing the impact of ASU 2019-12 on our consolidated financial statements and related disclosures.

Note 2 - Net Income per Share

Our calculation of the diluted share count includes the number of shares from our equity awards with market conditions or performance conditions that would be issuable under the terms of such awards at the end of the reporting period. For equity awards with a market condition, the number of shares included in the diluted share count as of September 26, 2020 is determined by measuring the achievement of the market condition as of the end of the reporting period. For equity awards with a performance condition, no shares are included in the diluted share count as of September 26, 2020, as vesting of future tranches of these awards is contingent upon achievement of the performance condition over two consecutive trailing four-quarter periods, which has not yet been achieved. See ["Note 9 - Stock-Based Compensation"](#) to our consolidated financial statements for further discussion of our equity awards with market conditions or performance conditions.

A summary of basic and diluted Net income per share is presented in the following table:

	Three Months Ended		Nine Months Ended	
	September 26, 2020	September 28, 2019	September 26, 2020	September 28, 2019
<i>(in thousands, except per share data)</i>				
Net income	\$ 12,607	\$ 13,539	\$ 31,403	\$ 29,506
Shares used in basic Net income per share	135,598	132,997	134,903	132,065
Dilutive effect of stock options, RSUs, ESPP shares, and equity awards with a market condition or performance condition	5,926	5,897	5,860	5,614
Shares used in diluted Net income per share	141,524	138,894	140,763	137,679
Basic Net income per share	\$ 0.09	\$ 0.10	\$ 0.23	\$ 0.22
Diluted Net income per share	\$ 0.09	\$ 0.10	\$ 0.22	\$ 0.21

The computation of diluted Net income per share excludes the effects of stock options, restricted stock units ("RSUs"), Employee Stock Purchase Plan ("ESPP") shares, and equity awards with a market condition or performance condition that are antidilutive, aggregating approximately the following number of shares:

	Three Months Ended		Nine Months Ended	
	September 26, 2020	September 28, 2019	September 26, 2020	September 28, 2019
<i>(in thousands)</i>				
Stock options, RSUs, ESPP shares, and equity awards with a market condition or performance condition excluded as they are antidilutive	370	909	514	328

Note 3 - Revenue from Contracts with Customers

Disaggregation of revenue

The following tables provide information about revenue from contracts with customers disaggregated by major class of revenue, revenue by channel, and by geographical market, based on ship-to location of the end customer, where available, and ship-to location of distributor otherwise:

Major Class of Revenue	Three Months Ended				Nine Months Ended			
	September 26, 2020		September 28, 2019		September 26, 2020		September 28, 2019	
(In thousands)								
Product	\$ 96,650	94%	\$ 97,477	94%	\$ 285,871	95%	\$ 287,185	95%
Licensing and services	6,392	6%	5,992	6%	15,076	5%	16,671	5%
Total revenue	\$ 103,042	100%	\$ 103,469	100%	\$ 300,947	100%	\$ 303,856	100%

Revenue by Channel

	Three Months Ended				Nine Months Ended			
	September 26, 2020		September 28, 2019		September 26, 2020		September 28, 2019	
(In thousands)								
Product revenue - Distributors	\$ 84,409	82%	\$ 84,135	81%	\$ 245,016	81%	\$ 248,234	82%
Product revenue - Direct	12,241	12%	13,342	13%	40,855	14%	38,951	13%
Licensing and services revenue	6,392	6%	5,992	6%	15,076	5%	16,671	5%
Total revenue	<u>\$ 103,042</u>	<u>100%</u>	<u>\$ 103,469</u>	<u>100%</u>	<u>\$ 300,947</u>	<u>100%</u>	<u>\$ 303,856</u>	<u>100%</u>

Revenue by Geographical Market

	Three Months Ended				Nine Months Ended			
	September 26, 2020		September 28, 2019		September 26, 2020		September 28, 2019	
(In thousands)								
United States	\$ 10,455	10%	\$ 9,296	9%	\$ 33,634	11%	\$ 32,352	11%
Other Americas	4,857	5%	2,838	3%	12,772	4%	9,518	3%
Americas	<u>15,312</u>	<u>15%</u>	<u>12,134</u>	<u>12%</u>	<u>46,406</u>	<u>15%</u>	<u>41,870</u>	<u>14%</u>
China	58,122	56%	57,301	55%	154,086	51%	157,648	52%
Taiwan	7,505	7%	6,796	7%	24,957	8%	14,147	5%
Japan	4,346	4%	10,262	10%	18,780	6%	31,534	10%
Other Asia	9,766	10%	5,285	5%	25,169	9%	22,171	7%
Asia	<u>79,739</u>	<u>77%</u>	<u>79,644</u>	<u>77%</u>	<u>222,992</u>	<u>74%</u>	<u>225,500</u>	<u>74%</u>
Europe	7,991	8%	11,691	11%	31,549	11%	36,486	12%
Total revenue	<u>\$ 103,042</u>	<u>100%</u>	<u>\$ 103,469</u>	<u>100%</u>	<u>\$ 300,947</u>	<u>100%</u>	<u>\$ 303,856</u>	<u>100%</u>

Contract balances

Our contract assets relate to our rights to consideration for licenses and royalties due to us as a member of the HDMI consortium, with collection dependent on events other than the passage of time, such as collection of licenses and royalties from customers by the HDMI licensing agent. The balance results primarily from the amount of estimated revenue related to HDMI that we have recognized to date, but which has not yet been collected by the agent. Contract assets are included in Prepaid expenses and other current assets on our Consolidated Balance Sheets. The following table summarizes activity during the first nine months of fiscal 2020:

(In thousands)

Contract assets as of December 28, 2019	\$	5,569
Revenues recorded during the period		11,660
Transferred to Accounts receivable or collected		(12,091)
Contract assets as of September 26, 2020	<u>\$</u>	<u>5,138</u>

Contract liabilities are included in Accounts payable and accrued expenses on our Consolidated Balance Sheets. The following table summarizes activity during the first nine months of fiscal 2020:

(In thousands)

Contract liabilities as of December 28, 2019	\$	2,313
Accruals for estimated future stock rotation and scrap returns		4,474
Less: Release of accruals for recognized stock rotation and scrap returns		(2,571)
Prepayment for performance obligations expected to be satisfied within three months		336
Less: Revenue recognized on satisfaction of performance obligations		(179)
Contract liabilities as of September 26, 2020	<u>\$</u>	<u>4,373</u>

The impact to revenue from the release of accruals for recognized stock rotation and scrap returns was offset by the processing of return merchandise authorizations totaling approximately \$3.0 million, yielding a net revenue reduction of approximately \$0.4 million for the first nine months of 2020.

Note 4 - Balance Sheet Components

Accounts Receivable

Accounts receivable do not bear interest and are shown net of an allowance for expected lifetime credit losses, which reflects our best estimate of probable losses inherent in the accounts receivable balance. We determine this allowance through an assessment of known troubled accounts, analysis of our accounts receivable aging, historical experience, expectations for future economic conditions, management judgment, and other available evidence.

	September 26, 2020	December 28, 2019
<i>(In thousands)</i>		
Accounts receivable	\$ 73,043	\$ 65,023
Less: Allowance for credit losses	(54)	(106)
Accounts receivable, net of allowance for credit losses	<u>\$ 72,989</u>	<u>\$ 64,917</u>

Inventories

	September 26, 2020	December 28, 2019
<i>(In thousands)</i>		
Work in progress	\$ 38,691	\$ 39,855
Finished goods	20,797	15,125
Total inventories	<u>\$ 59,488</u>	<u>\$ 54,980</u>

Property and Equipment – Geographic Information

Our Property and equipment, net by country at the end of each period was as follows:

	September 26, 2020	December 28, 2019
<i>(In thousands)</i>		
United States	\$ 29,830	\$ 32,313
China	1,390	1,683
Philippines	2,589	2,683
Taiwan	5,224	1,885
Japan	555	283
Other	194	383
Total foreign property and equipment, net	9,952	6,917
Total property and equipment, net	<u>\$ 39,782</u>	<u>\$ 39,230</u>

Accounts Payable and Accrued Expenses

Included in Accounts payable and accrued expenses in the Consolidated Balance Sheets are the following balances:

	September 26, 2020	December 28, 2019
<i>(In thousands)</i>		
Trade accounts payable	\$ 40,113	\$ 44,350
Liability for non-cancelable contracts	7,769	6,964
Other accrued expenses	11,860	8,941
Total accounts payable and accrued expenses	<u>\$ 59,742</u>	<u>\$ 60,255</u>

Cloud Based Computing Implementation Costs

Under the guidance in ASU 2018-15, *Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40)*, we are capitalizing the implementation costs for cloud computing arrangements, mainly for our integrated distributor accounting management systems. These cloud-based computing implementation costs are recorded in Prepaid expenses and other current assets and Other long-term assets on our Consolidated Balance Sheets. The following table summarizes activity during the first nine months of fiscal 2020:

(In thousands)

Cloud based computing implementation costs as of December 28, 2019	\$	2,543
Costs capitalized		646
Amortization		(388)
Cloud based computing implementation costs as of September 26, 2020	\$	2,801

Note 5 - Long-Term Debt

On May 17, 2019, we entered into a credit agreement (the "Current Credit Agreement"), which provides for a five-year secured term loan facility in an aggregate principal amount of \$175.0 million and a five-year secured revolving loan facility in an aggregate principal amount of up to \$75.0 million. Details of the term loan and the revolving loan (collectively, "long-term debt"), including the basis for interest, payment terms, and covenant compliance are described in the Current Credit Agreement and in the Notes to Consolidated Financial Statements in our 2019 10-K.

During the first nine months of fiscal 2020, we have made principal payments totaling \$26.3 million, including \$13.1 million in accelerated principal payments made during the second quarter of fiscal 2020 that fulfilled the required quarterly installments through the first quarter of fiscal 2021. We drew \$50.0 million on our revolving loan facility during the first quarter of fiscal 2020. The fair value of our long-term debt approximates the carrying value, which is reflected in our Consolidated Balance Sheets as follows:

	September 26, 2020	December 28, 2019
(In thousands)		
Principal amount	\$ 171,875	\$ 148,125
Unamortized original issuance discount and debt costs	(1,278)	(1,579)
Less: Current portion of long-term debt	(8,382)	(21,474)
Long-term debt, net of current portion and unamortized debt issue costs	<u>\$ 162,215</u>	<u>\$ 125,072</u>

As of September 26, 2020, the effective interest rate on the term loan was 1.62%, and the effective interest rate on the revolving loan was 1.42%. We pay a commitment fee of 0.20% on the unused portion of the revolving loan. Interest expense related to our long-term debt was included in Interest expense on our Consolidated Statements of Operations as follows:

	Three Months Ended		Nine Months Ended	
	September 26, 2020	September 28, 2019	September 26, 2020	September 28, 2019
(In thousands)				
Contractual interest	\$ 663	\$ 1,686	\$ 2,667	\$ 8,991
Amortization of original issuance discount and debt costs	92	324	300	1,539
Total interest expense related to long-term debt	<u>\$ 755</u>	<u>\$ 2,010</u>	<u>\$ 2,967</u>	<u>\$ 10,530</u>

Expected future principal payments are based on the schedule of required quarterly installments. With the accelerated principal payments we made during the second quarter of fiscal 2020, our next required quarterly installment is due in the second quarter of fiscal 2021. As of September 26, 2020, expected future principal payments on our long-term debt were as follows:

Fiscal year	(in thousands)
2020 (remaining 3 months)	\$ -
2021	13,125
2022	17,500
2023	13,125
2024	128,125
	<u>\$ 171,875</u>

Note 6 - Restructuring

In March 2020, our management approved and executed an internal restructuring plan (the "Q1 2020 Plan"), which included a workforce reduction in order to reduce our operating cost structure by leveraging our low-cost regions as well as enhancing efficiency. Under the Q1 2020 Plan, we incurred restructuring expense of approximately \$0.6 million during the third quarter of fiscal 2020 associated with additional headcount related costs. A total of \$2.0 million has been incurred through September 26, 2020, and we believe this amount substantially approximates the total costs under the Q1 2020 Plan.

Under the Q2 2019 Sales Plan, which is described in the 2019 10-K, we incurred charges of less than \$0.1 million during both the third quarter of fiscal 2020 and the nine months ended September 26, 2020. We recorded a net credit adjustment of approximately \$0.1 million during the third quarter of fiscal 2019 and expenses of approximately \$2.3 million during the nine months ended September 28, 2019. Approximately \$2.0 million of net expense has been incurred through September 26, 2020 under the Q2 2019 Sales Plan. Substantially all actions planned under the Q2 2019 Sales Plan have been implemented.

Under the June 2017 Plan, which is described in the 2019 10-K, we incurred approximately \$1.9 million of incremental restructuring costs in the third quarter of fiscal 2020 related to our partially vacated facility in San Jose, California due to changes in the estimated timing of subleasing the vacated space. Including these charges, we incurred expenses of approximately \$2.0 million during the third quarter of fiscal 2020 and approximately \$2.1 million during the nine months ended September 26, 2020. We incurred expenses of approximately \$0.4 million and \$2.4 million, respectively, during the third quarter of fiscal 2019 and during the nine months ended September 28, 2019. We have incurred approximately \$21.2 million of total expense through September 26, 2020 under the June 2017 Plan, and all planned actions have been implemented. We expect the total cost of the June 2017 Plan to be approximately \$22.0 million to \$23.5 million as expenses related to our partially vacated facility in San Jose, California will be incurred over the remaining lease term.

These expenses were recorded to Restructuring charges on our Consolidated Statements of Operations. The restructuring accrual balance is presented in Accounts payable and accrued expenses and in Other long-term liabilities on our Consolidated Balance Sheets. The following table displays the activity related to our restructuring plans:

<i>(In thousands)</i>	Severance & Related (1)	Lease Termination & Fixed Assets	Software Contracts & Engineering Tools (2)	Other (3)	Total
Accrued Restructuring at December 28, 2019	\$ 160	\$ 6,585	\$ —	\$ 865	\$ 7,610
Restructuring charges	1,733	2,132	—	313	4,178
Costs paid or otherwise settled	(1,254)	(1,275)	—	(526)	(3,055)
Accrued Restructuring at September 26, 2020	<u>\$ 639</u>	<u>\$ 7,442</u>	<u>\$ —</u>	<u>\$ 652</u>	<u>\$ 8,733</u>
Accrued Restructuring at December 29, 2018	\$ 1,814	\$ 8,630	\$ 218	\$ 18	\$ 10,680
Restructuring charges	625	2,482	—	1,612	4,719
Costs paid or otherwise settled	(2,279)	(3,714)	(218)	(96)	(6,307)
Accrued Restructuring at September 28, 2019	<u>\$ 160</u>	<u>\$ 7,398</u>	<u>\$ -</u>	<u>\$ 1,534</u>	<u>\$ 9,092</u>

(1) Includes employee relocation and outplacement costs

(2) Includes cancellation of contracts, asset impairments, and accelerated depreciation on certain enterprise resource planning and customer relationship management systems

(3) Beginning in the second quarter of fiscal 2019, "Other" included termination fees on the cancellation of certain contracts under the Q2 2019 Sales Plan

Note 7 - Leases

We have operating leases for corporate offices, sales offices, research and development facilities, storage facilities, and a data center, the terms of which are described in our 2019 10-K. All of our facilities are leased under operating leases, which expire at various times through 2027, with a weighted-average remaining lease term of 5.1 years and a weighted-average discount rate of 7.0% as of September 26, 2020. We recorded fixed operating lease expenses of \$1.9 million for the third quarter of both fiscal 2020 and fiscal 2019, and \$5.7 million and \$5.8 million for the first nine months of fiscal 2020 and 2019, respectively.

The following table presents the lease balance classifications within the Consolidated Balance Sheets and summarizes their activity during the first nine months of fiscal 2020:

Operating lease right-of-use assets	<i>(in thousands)</i>
Balance as of December 28, 2019	\$ 23,591
Right-of-use assets obtained for new lease contracts during the period	2,274
Reduction in the carrying amount of right-of-use assets during the period	(4,464)
Adjustments for present value and foreign currency effects	213
Balance as of September 26, 2020	\$ 21,614

Operating lease liabilities	<i>(in thousands)</i>
Balance as of December 28, 2019	\$ 26,124
Lease liabilities incurred for new lease contracts during the period	2,274
Accretion of lease liabilities	1,247
Operating cash used by payments on lease liabilities	(5,786)
Adjustments for present value, foreign currency, and restructuring liability effects	208
Balance as of September 26, 2020	24,067
Less: Current portion of operating lease liabilities	(4,562)
Long-term operating lease liabilities, net of current portion	\$ 19,505

Maturities of operating lease liabilities as of September 26, 2020 are as follows:

Fiscal year	<i>(in thousands)</i>
2020 (remaining 3 months)	\$ 1,086
2021	6,313
2022	5,121
2023	5,030
2024	4,848
Thereafter	6,774
Total lease payments	29,172
Less: amount representing interest	(4,966)
Less: amount representing restructuring liability adjustments	(139)
Total lease liabilities	\$ 24,067

Prior to 2020, the reporting of future minimum lease commitments included the lease obligations associated with previously restructured facilities. Lease obligations for facilities restructured prior to the adoption of Topic 842 totaled approximately \$7.4 million at September 26, 2020 and continued to be recorded in Other long-term liabilities on our Consolidated Balance Sheets.

Note 8 - Intangible Assets

On our Consolidated Balance Sheets at September 26, 2020 and December 28, 2019, Intangible assets, net are shown net of accumulated amortization of \$131.3 million and \$127.4 million, respectively. During the third quarter of fiscal 2020, we entered into license agreements for third-party technology totaling approximately \$0.4 million and have recorded them as intangible assets. These licenses are being amortized to Research and development expense over their estimated useful lives.

We recorded amortization expense related to intangible assets on the Consolidated Statements of Operations as presented in the following table:

	Three Months Ended		Nine Months Ended	
	September 26, 2020	September 28, 2019	September 26, 2020	September 28, 2019
<i>(In thousands)</i>				
Research and development	\$ 17	\$ 14	\$ 45	\$ 41
Amortization of acquired intangible assets	603	3,389	3,846	10,168
	<u>\$ 620</u>	<u>\$ 3,403</u>	<u>\$ 3,891</u>	<u>\$ 10,209</u>

Note 9 - Stock-Based Compensation

Total stock-based compensation expense included in our Consolidated Statements of Operations is presented in the following table:

	Three Months Ended		Nine Months Ended	
	September 26, 2020	September 28, 2019	September 26, 2020	September 28, 2019
<i>(In thousands)</i>				
Cost of revenue	\$ 834	\$ 453	\$ 2,322	\$ 982
Research and development	2,633	1,658	7,461	4,029
Selling, general, and administrative	7,021	3,569	20,445	8,324
Total stock-based compensation	<u>\$ 10,488</u>	<u>\$ 5,680</u>	<u>\$ 30,228</u>	<u>\$ 13,335</u>

Market-Based and Performance-Based Stock Compensation

In 2018 and 2019, we granted awards of RSUs with either a market condition or a performance condition to certain executives, as described in our 2019 10-K. During the first quarter of fiscal 2020, the Board of Directors approved a modification to the market condition measurement periods associated with the unvested portions of certain of the Company's awards with a market condition that were granted prior to fiscal 2020. The modification extended the duration of the measurement period by adjusting the beginning date of each measurement period to the original grant date, resulting in approximately \$1.8 million additional stock compensation expense during the first quarter of fiscal 2020.

In the first quarter of fiscal 2020, we granted awards of RSUs with a market condition to certain executives. Under the terms of these grants, the RSUs with a market condition vest and become payable over a three-year period based on the Company's total shareholder return ("TSR") relative to the Russell 2000 index, which condition is tested for one-half of the grants on the second and third anniversary of the grant date. If the 75th percentile of the market condition is achieved, the awards may vest at 250% or 200%, depending upon the executive, with 100% of the units vesting at the 55th percentile, zero vesting if relative TSR is below the 25th percentile, and vesting scaling for achievement between the 25th and 75th percentile.

During the third quarter of fiscal 2020, the market condition for awards granted in previous years exceeded the 75th percentile of the condition, and one-third of these awards vested at 250% or 200%, as applicable for the respective executive. During the second quarter of fiscal 2020, the first tranche of 33.3% of the base number of the awards with an EBITDA performance condition vested, as the Company had generated the specified "adjusted" EBITDA levels on a trailing four quarter basis for two consecutive trailing four-quarter periods as of the end of the previous quarter. During the first quarter of fiscal 2020, the market condition for awards granted to certain executives in the first quarter of fiscal 2019 exceeded the 75th percentile of the condition, and the first tranche of these awards vested at 200%. For our awards with a market condition or a performance condition, we incurred stock compensation expense, including the effect of the modification in the first quarter of fiscal 2020, of approximately \$5.6 million and \$0.9 million in the third quarter of fiscal 2020 and 2019, respectively, and of approximately \$16.5 million and \$2.9 million in the first nine months of fiscal 2020 and 2019, respectively, which is recorded as a component of total stock-based compensation expense.

The following table summarizes the activity for our awards with a market condition or performance condition:

<i>(Shares in thousands)</i>	Total
Balance, December 28, 2019	1,163
Granted	349
Effect of vesting multiplier	440
Vested	(816)
Cancelled	(14)
Balance, September 26, 2020	<u>1,122</u>

Note 10 - Income Taxes

We are subject to federal and state income tax as well as income tax in the foreign jurisdictions in which we operate. For the third quarter of fiscal 2020, we recorded an income tax benefit of approximately \$0.7 million, and for fiscal 2019, we recorded income tax expense of approximately \$1.1 million. For the first nine months of fiscal 2020 and fiscal 2019, we recorded income tax expense of approximately \$0.6 million and \$1.5 million, respectively. Income taxes for the three and nine month periods ended September 26, 2020 and September 28, 2019 represent tax at the federal, state, and foreign statutory tax rates in addition to withholding taxes, changes in uncertain tax positions, changes in the U.S. valuation allowance, as well as other non-deductible items in foreign jurisdictions. The difference between the U.S. federal statutory tax rate of 21% and our effective tax rates for the three and nine months ended September 26, 2020 and for the three and nine months ended September 28, 2019 resulted primarily from the U.S. valuation allowance, foreign withholding taxes, foreign rate differentials, and the discrete impacts of uncertain tax positions due to lapsing of the statute of limitations.

We updated our evaluation of the valuation allowance position in the United States through September 26, 2020 and concluded that we should continue to maintain a full valuation allowance against the net federal and state deferred tax assets. In making this evaluation, we exercised significant judgment and considered estimates about our ability to generate revenue and taxable profits sufficient to offset expenditures in future periods within the U.S. We will continue to evaluate both positive and negative evidence in future periods to determine if we will realize the deferred tax assets. We do not have a valuation allowance in any foreign jurisdictions as we have concluded it is more likely than not that we will realize the net deferred tax assets in future periods.

Our liability recorded for uncertain tax positions (including penalties and interest) was \$23.0 million and \$24.6 million at September 26, 2020 and December 28, 2019, respectively, and is included as a component of Other long-term liabilities on our Consolidated Balance Sheets.

We are not currently paying U.S. federal income taxes and do not expect to pay such taxes until we fully utilize our tax net operating loss ("NOL") and credit carryforwards. We expect to pay a nominal amount of state income tax. We are paying foreign income and withholding taxes, which are reflected in Income tax expense in our Consolidated Statements of Operations and are primarily related to the cost of operating offshore activities and subsidiaries. We accrue interest and penalties related to uncertain tax positions in Income tax expense.

Note 11 - Contingencies

Legal Matters

On or about December 19, 2018, Steven A.W. De Jaray, Perienne De Jaray and Darrell R. Oswald (collectively, the "Plaintiffs") commenced an action against the Company and several unnamed defendants in the Multnomah County Circuit Court of the State of Oregon, in connection with the sale of certain products by the Company to the Plaintiffs in or around 2008. The Plaintiffs allege that we violated The Lanham Act, engaged in negligence and fraud by failing to disclose to the Plaintiffs the export-controlled status of the subject parts. The Plaintiffs seek damages of \$138 million, treble damages, and other remedies. In January 2019, we removed the action to the United States District Court for the District of Oregon. At this stage of the proceedings, we do not have an estimate of the likelihood or the amount of any potential exposure to the Company; however, we believe that these claims are without merit and intend to vigorously defend the action.

From time to time, we are exposed to certain additional asserted and unasserted potential claims. We review the status of each significant matter and assess its potential financial exposure. If the potential loss from any claim or legal proceeding is considered probable and a range of possible losses can be estimated, we then accrue a liability for the estimated loss. Legal proceedings are subject to uncertainties, and the outcomes are difficult to predict. Because of such uncertainties, accruals are based only on the best information available at the time. As additional information becomes available, we reassess the potential liability related to pending claims and litigation and may revise estimates.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read along with the unaudited consolidated financial statements and notes thereto included in Part I, Item 1 of this Quarterly Report on Form 10-Q, as well as the audited consolidated financial statements and notes thereto and Management's Discussion and Analysis of Financial Condition and Results of Operations in our 2019 10-K.

Overview

Lattice Semiconductor Corporation and its subsidiaries ("Lattice," the "Company," "we," "us," or "our") develop technologies that we monetize through differentiated programmable logic semiconductor products, system solutions, design services, and licenses. Lattice 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 enable our customers to create a smart, secure, and connected world.

Lattice has focused its strategy on delivering programmable logic products and related solutions based on low power, small size, and ease of use. We also serve our customers with IP licensing and various other services. Our product development activities include new proprietary products, advanced packaging, existing product enhancements, software development tools, soft IP, and system solutions for high-growth applications such as Edge Artificial Intelligence, 5G infrastructure, platform security, and factory automation.

Critical Accounting Policies and Use of Estimates

Critical accounting policies are those that are both most important to the portrayal of a company's financial condition and results, and that require management's most difficult, subjective, and complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. Management believes that there have been no significant changes to the items that we disclosed as our critical accounting policies and estimates in Management's Discussion and Analysis of Financial Condition and Results of Operations in our 2019 10-K.

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and judgments affecting the amounts reported in our consolidated condensed financial statements and the accompanying notes. The actual results that we experience may differ materially from our estimates. As of September 26, 2020, the extent to which the COVID-19 pandemic will impact our business going forward depends on numerous dynamic factors which we cannot reliably predict. As a result, some of our estimates and assumptions required increased judgment and carry a higher degree of variability and volatility. As the events continue to evolve with respect to the pandemic, our estimates may materially change in future periods.

Impact of COVID-19 on our Business

The COVID-19 pandemic has caused, and is expected to continue to cause, the global slowdown of economic activity (including the decrease in demand for goods and services), and significant volatility in and disruption to financial markets. Because the severity, magnitude and duration of the COVID-19 pandemic and its economic consequences are uncertain, rapidly changing and difficult to predict, the pandemic's impact on our operations and financial performance, as well as its impact on our ability to successfully execute our business strategy and initiatives, remains uncertain. We continue to take actions to safeguard the health and well-being of our employees and our business. We implemented social distancing policies at our locations around the world including working from home and eliminating virtually all travel. Furthermore, we continue to manage our cash position and liquidity needs in light of the rapidly changing environment, and we have additional resources available under our Credit Agreement, if needed. As a result of the accelerated debt payments we made during the second quarter of fiscal 2020 to reduce our future interest rate expense, we do not have any required debt payments until June 30, 2021.

As COVID-19 has spread globally and been declared a pandemic, the full extent of this outbreak, the related governmental, business and travel restrictions in order to contain this virus are continuing to evolve globally. We anticipate that these actions and the global health crisis caused by COVID-19 will negatively impact business activity across the globe. We expect our demand to be impacted in Q4 and potentially beyond Q4 given the global reach and economic impact of the virus. For example, governmental actions or policies or other initiatives to contain the virus, could lead to reductions in our end customers' demand under which we would expect to lose revenue. We have previously seen and could again see delays or disruptions in our supply chain due to governmental restrictions. If our suppliers experience similar impacts, we may have difficulty sourcing materials necessary to fulfill customer production requirements and transporting completed products to our end customers.

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We will continue to actively monitor the situation and may take further actions altering our business operations that we determine are in the best interests of our employees, customers, partners, suppliers, and stakeholders, or as required by federal, state, or local authorities. It is not clear what the potential effects of any such alterations or modifications may have on our business, including the effects on our customers, employees, and prospects, or on our financial results for the remainder of fiscal 2020 or future periods. The full extent of the impact of the COVID-19 pandemic on our business, results of operations and financial position is currently uncertain and will depend on many factors that are not within our control, including, but not limited to: the duration and scope of the pandemic; governmental, business and individuals' actions that have been and continue to be taken in response to the pandemic; general economic uncertainty in key global markets and financial market volatility; global economic conditions and levels of economic growth; and the pace of recovery when the COVID-19 pandemic subsides. See the section entitled "Risk Factors" in Item 1A of Part II of this report for further information about related risks and uncertainties.

Results of Operations

Key elements of our Consolidated Statements of Operations, including as a percentage of revenue, are presented in the following table:

	Three Months Ended				Nine Months Ended			
	September 26, 2020		September 28, 2019		September 26, 2020		September 28, 2019	
(In thousands)								
Revenue	\$ 103,042	100.0%	\$ 103,469	100.0%	\$ 300,947	100.0%	\$ 303,856	100.0%
Gross margin	62,306	60.5	61,439	59.4	180,445	60.0	179,129	59.0
Research and development	22,439	21.8	20,032	19.4	66,590	22.1	59,074	19.4

Selling, general and, administrative	23,758	23.1	21,078	20.4	70,797	23.5	61,618	20.3
Amortization of acquired intangible assets	603	0.6	3,389	3.3	3,846	1.3	10,168	3.3
Restructuring charges	2,692	2.6	252	0.2	4,178	1.4	4,719	1.6
Income from operations	<u>\$ 12,814</u>	12.4%	<u>\$ 16,688</u>	16.1%	<u>\$ 35,034</u>	11.6%	<u>\$ 43,550</u>	14.3%

Revenue by End Market

We sell our products globally to a broad base of customers in three primary end market groups: Communications and Computing, Industrial and Automotive, and Consumer. We also provide Intellectual Property licensing and services to these end markets.

We anticipate future revenue growth due to multiple market segment drivers, including:

- Communications and computing: 5G infrastructure deployments, cloud and enterprise servers, and client computing platforms,
- Industrial and automotive: industrial Internet of Things ("IIoT"), factory automation, and automotive electronics,
- Consumer: smart home and prosumer.

We also generate revenue from the licensing of our Intellectual Property ("IP"), the collection of certain royalties, patent sales, the revenue related to our participation in consortia and standard-setting activities, and services. While these activities may be associated with multiple markets, Licensing and services revenue is reported as a separate end market as it has characteristics that differ from other categories, most notably a higher gross margin.

The end market data below is derived from data provided to us by our distributors and end customers. With a diverse base of customers who may manufacture end products spanning multiple end markets, the assignment of revenue to a specific end market requires the use of judgment. We also recognize certain revenue for which end customers and end markets are not yet known. We assign this revenue first to a specific end market using historical and anticipated usage of the specific products, if possible, and allocate the remainder to the end markets based on either historical usage for each product family or industry application data for certain product types.

The following are examples of end market applications for the periods presented:

<u>Communications and Computing</u>	<u>Industrial and Automotive</u>	<u>Consumer</u>	<u>Licensing and Services</u>
Wireless	Security and Surveillance	Cameras	IP Royalties
Wireline	Machine Vision	Displays	Adopter Fees
Data Backhaul	Industrial Automation	Wearables	IP Licenses
Server Computing	Robotics	Televisions	Patent Sales
Client Computing	Automotive	Home Theater	
Data Storage	Drones		

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The composition of our revenue by end market is presented in the following table:

	Three Months Ended				Nine Months Ended			
	September 26, 2020		September 28, 2019		September 26, 2020		September 28, 2019	
<i>(In thousands)</i>								
Communications and Computing	\$ 44,257	43.0%	\$ 41,891	40.4%	\$ 128,592	42.7%	\$ 117,320	38.5%
Industrial and Automotive	42,249	41.0	37,102	35.9	122,767	40.8	112,276	37.0
Consumer	10,144	9.8	18,484	17.9	34,512	11.5	57,589	19.0
Licensing and Services	6,392	6.2	5,992	5.8	15,076	5.0	16,671	5.5
Total revenue	<u>\$ 103,042</u>	<u>100.0%</u>	<u>\$ 103,469</u>	<u>100.0%</u>	<u>\$ 300,947</u>	<u>100.0%</u>	<u>\$ 303,856</u>	<u>100.0%</u>

Revenue from the Communications and Computing end market increased by 6% for the third quarter of fiscal 2020 compared to the third quarter of fiscal 2019 and increased by 10% for the first nine months of fiscal 2020 compared to the first nine months of fiscal 2019 due to the continued adoption of our products used in servers and client computing platforms, as well as ongoing 5G infrastructure deployments.

Revenue from the Industrial and Automotive end market increased by 14% for the third quarter of fiscal 2020 compared to the third quarter of fiscal 2019 and increased by 9% for the first nine months of fiscal 2020 compared to the first nine months of fiscal 2019 due primarily to increased demand for our products used in a broad range of applications including industrial automation and safety, robotics, embedded vision, and automotive electronics.

Revenue from the Consumer end market decreased by 45% for the third quarter of fiscal 2020 compared to the third quarter of fiscal 2019 and decreased by 40% for the first nine months of fiscal 2020 compared to the first nine months of fiscal 2019. This segment has been impacted by lower end market demand due to the COVID-19 pandemic, as well as the expected shift in the mix of revenue towards our other market segments.

Revenue from the Licensing and services end market increased by 7% for the third quarter of fiscal 2020 compared to the third quarter of fiscal 2019 primarily due to increased licensing revenue, and decreased by 10% for the first nine months of fiscal 2020 compared to the first nine months of fiscal 2019 primarily due to decreased HDMI revenue.

Revenue by Geography

We assign revenue to geographies based on ship-to location of the end customer, where available, and based upon the location of the distributor to which the product was shipped otherwise.

The composition of our revenue by geography is presented in the following table:

	Three Months Ended				Nine Months Ended			
	September 26, 2020		September 28, 2019		September 26, 2020		September 28, 2019	
<i>(In thousands)</i>								
Asia	\$ 79,739	77.4%	\$ 79,644	77.0%	\$ 222,992	74.1%	\$ 225,500	74.2%
Americas	15,312	14.9	11,691	11.3	46,406	15.4	36,486	12.0
Europe	7,991	7.7	12,134	11.7	31,549	10.5	41,870	13.8
Total revenue	<u>\$ 103,042</u>	<u>100.0%</u>	<u>\$ 103,469</u>	<u>100.0%</u>	<u>\$ 300,947</u>	<u>100.0%</u>	<u>\$ 303,856</u>	<u>100.0%</u>

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Revenue from Distributors

Distributors have historically accounted for a significant portion of our total revenue. Revenue attributable to our primary distributors is presented in the following table:

	% of Total Revenue Three Months Ended		% of Total Revenue Nine Months Ended	
	September 26, 2020	September 28, 2019	September 26, 2020	September 28, 2019
Weikeng Group	37.9%	30.6%	32.9%	29.7%
Arrow Electronics Inc.	24.7	24.3	24.9	25.1
All others	19.3	26.4	23.6	26.9
All distributors	81.9%	81.3%	81.4%	81.7%

Gross Margin

The composition of our Gross margin, including as a percentage of revenue, is presented in the following table:

	Three Months Ended		Nine Months Ended	
	September 26, 2020	September 28, 2019	September 26, 2020	September 28, 2019
(In thousands) Gross margin	\$ 62,306	\$ 61,439	\$ 180,445	\$ 179,129
Percentage of net revenue	60.5%	59.4%	60.0%	59.0%
Product gross margin %	57.9%	56.9%	57.8%	56.6%
Licensing and services gross margin %	100.0%	100.0%	100.0%	100.0%

Gross margin, as a percentage of revenue, increased 110 basis points in the third quarter of fiscal 2020 compared to the third quarter of fiscal 2019 and increased by 100 basis points for the first nine months of fiscal 2020 compared to the first nine months of fiscal 2019. Improved margins were driven by benefits from pricing optimization programs, product cost reductions, and product mix.

Because of its higher margin, the licensing and services portion of our overall revenue can have a disproportionate impact on Gross margin depending on the relative mix between product revenue and licensing and services revenue.

Operating Expenses

Research and Development Expense

The composition of our Research and development expense, including as a percentage of revenue, is presented in the following table:

	Three Months Ended			Nine Months Ended		
	September 26, 2020	September 28, 2019	% change	September 26, 2020	September 28, 2019	% change
(In thousands) Research and development	\$ 22,439	\$ 20,032	12.0%	\$ 66,590	\$ 59,074	12.7%
Percentage of revenue	21.8%	19.4%		22.1%	19.4%	

Research and development expense includes costs for compensation and benefits, stock compensation, engineering wafers, depreciation, licenses, and outside engineering services. These expenditures are for the design of new products, IP cores, processes, packaging, and software solutions. The increase in Research and development expense for the third quarter and first nine months of fiscal 2020 compared to the third quarter and first nine months of fiscal 2019 was due primarily to increased headcount to support the expansion of our programmable logic product portfolio and acceleration of our new product introduction cadence. We believe that a continued commitment to Research and development is essential to maintaining product leadership and providing innovative new product offerings and, therefore, we expect to continue to increase our investment in Research and development, particularly with expanded investment in the development of software solutions.

Selling, General, and Administrative Expense

The composition of our Selling, general, and administrative expense, including as a percentage of revenue, is presented in the following table:

	Three Months Ended			Nine Months Ended		
	September 26, 2020	September 28, 2019	% change	September 26, 2020	September 28, 2019	% change
(In thousands) Selling, general, and administrative	\$ 23,758	\$ 21,078	12.7%	\$ 70,797	\$ 61,618	14.9%
Percentage of revenue	23.1%	20.4%		23.5%	20.3%	

Selling, general, and administrative expense includes costs for compensation and benefits related to selling, general, and administrative employees, commissions, depreciation, professional and outside services, trade show, and travel expenses. The increase in Selling, general, and administrative expense for the third quarter and first nine months of fiscal 2020 compared to the third quarter and first nine months of fiscal 2019 was due primarily to increased expenses for stock compensation and salaries, partially offset by reduced commissions resulting from our restructuring under the Q2 2019 Sales Plan.

Amortization of Acquired Intangible Assets

The composition of our Amortization of acquired intangible assets, including as a percentage of revenue, is presented in the following table:

Three Months Ended		Nine Months Ended	
September 26, 2020	September 28, 2019	September 26, 2020	September 28, 2019

(In thousands)	2020		2019		% change	2020		2019		% change
Amortization of acquired intangible assets	\$	603	\$	3,389	(82.2)%	\$	3,846	\$	10,168	(62.2)%
Percentage of revenue		0.6%		3.3%			1.3%		3.3%	

The decrease in Amortization of acquired intangible assets for the third quarter and first nine months of fiscal 2020 compared to the third quarter and first nine months of fiscal 2019 is due to the end of the amortization period for the majority of our acquired intangible assets during the first quarter of fiscal 2020.

Restructuring Charges

The composition of our Restructuring charges, including as a percentage of revenue, is presented in the following table:

(In thousands)	Three Months Ended			% change	Nine Months Ended			% change
	September 26, 2020	September 28, 2019			September 26, 2020	September 28, 2019		
Restructuring charges	\$ 2,692	\$ 252		968.3%	\$ 4,178	\$ 4,719		(11.5)%
Percentage of revenue	2.6%	0.2%			1.4%	1.6%		

Restructuring charges are comprised of expenses resulting from reductions in our worldwide workforce, consolidation of our facilities, removal of fixed assets from service, and cancellation of software contracts and engineering tools. Details of our restructuring plans and expenses incurred under them are discussed in ["Note 6 - Restructuring"](#) to our Consolidated Financial Statements in Part I, Item 1 of this report.

The increase in restructuring expense in the third quarter of fiscal 2020 compared to the third quarter of fiscal 2019 was due primarily to the incremental costs related to our partially vacated facility in San Jose, California under the June 2017 Plan and the additional headcount related costs under the Q1 2020 Plan. The decrease in restructuring expense in the first nine months of fiscal 2020 compared to the first nine months of fiscal 2019 was driven by lower charges in the current year period for facility closures under the June 2017 Plan, and by lower charges in the current year period for severance under the Q1 2020 Plan compared to charges in the prior year period resulting from contract cancellation under the Q2 2019 Sales Plan.

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Interest Expense

The composition of our Interest expense, including as a percentage of revenue, is presented in the following table:

(In thousands)	Three Months Ended			% change	Nine Months Ended			% change
	September 26, 2020	September 28, 2019			September 26, 2020	September 28, 2019		
Interest expense	\$ (792)	\$ (2,022)		(60.8)%	\$ (2,914)	\$ (10,547)		(72.4)%
Percentage of revenue	(0.8)%	(2.0)%			(1.0)%	(3.5)%		

Interest expense is primarily related to our long-term debt, which is further discussed under the Credit Arrangements heading in the Liquidity and Capital Resources section, below. This interest expense is comprised of contractual interest and amortization of original issue discount and debt issuance costs based on the effective interest method.

The decrease in Interest expense for the third quarter and first nine months of fiscal 2020 compared to the third quarter and first nine months of fiscal 2019 was largely driven by the significant reduction in the effective interest rate on our long-term debt, coupled with the additional principal payments made in previous periods.

Other Expense, net

The composition of our Other expense, net, including as a percentage of revenue, is presented in the following table:

(In thousands)	Three Months Ended			% change	Nine Months Ended			% change
	September 26, 2020	September 28, 2019			September 26, 2020	September 28, 2019		
Other expense, net	\$ (70)	\$ (61)		14.8%	\$ (83)	\$ (2,017)		(95.9)%
Percentage of revenue	(0.1)%	(0.1)%			(0.0)%	(0.7)%		

For the first nine months of fiscal 2020 compared to the first nine months of fiscal 2019, Other expense, net changed primarily due to the non-recurrence of the \$2.2 million loss on refinancing charge taken to write off the remaining unamortized balance of debt costs and original issue discount related to the long-term debt refinanced during the prior year period.

Income Taxes

The composition of our Income tax expense is presented in the following table:

(In thousands)	Three Months Ended			% change	Nine Months Ended			% change
	September 26, 2020	September 28, 2019			September 26, 2020	September 28, 2019		
Income tax (benefit) expense	\$ (655)	\$ 1,066		(161.4)%	\$ 634	\$ 1,480		(57.2)%

Our Income tax expense is composed primarily of foreign income and withholding taxes, partially offset by benefits resulting from the release of uncertain tax positions ("UTP") due to statute of limitation expirations that occurred in the respective periods. The decrease in expense in the third quarter of fiscal 2020 as compared to the third quarter of fiscal 2019 is primarily due to release of uncertain tax positions due to statute of limitations expirations. The increase in expense in the first nine months of fiscal 2020 as compared to the first nine months of fiscal 2019 is primarily due to increase in foreign withholding taxes and UTP expense partially offset by release of uncertain tax positions due to statute of limitations expirations.

We are not currently paying U.S. federal income taxes and do not expect to pay such taxes until we fully utilize our tax net operating loss and credit carryforwards. We expect to pay a nominal amount of state income tax. We are paying foreign income taxes, which are primarily related to withholding taxes on income from foreign royalties, foreign sales, and the cost of operating offshore research and development, marketing, and sales subsidiaries. We updated our evaluation of the valuation allowance position in the United States through September 26, 2020 and concluded that we should continue to maintain a full valuation allowance against the net federal and state deferred tax assets. We will continue to evaluate both positive and negative evidence in future periods to determine if we will realize the deferred tax assets. We accrue interest and penalties related to uncertain tax positions in income tax expense on our

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Liquidity and Capital Resources

The following sections discuss material changes in our financial condition from the end of fiscal 2019, including the effects of changes in our Consolidated Balance Sheets, and the effects of our credit arrangements and contractual obligations on our liquidity and capital resources.

We have historically financed our operating and capital resource requirements through cash flows from operations, and from the issuance of long-term debt to fund acquisitions. Cash provided by or used in operating activities will fluctuate from period to period due to fluctuations in operating results, the timing and collection of accounts receivable, and required inventory levels, among other things.

There is significant uncertainty around the extent and duration of the disruption to our business from the COVID-19 pandemic, and our liquidity and working capital needs may be impacted in the future periods.

We believe that our financial resources, including current cash and cash equivalents, cash flow from operating activities, and our credit facilities, will be sufficient to meet our liquidity and working capital needs through at least the next 12 months. As of September 26, 2020, we did not have significant long-term commitments for capital expenditures. In the future, we may continue to consider acquisition opportunities to further extend our product or technology portfolios and further expand our product offerings. In connection with funding capital expenditures, acquisitions, securing additional wafer supply, increasing our working capital, or other operations, we may seek to obtain equity or additional debt financing, or advance purchase payments or similar arrangements with wafer manufacturers. We may also seek to obtain equity or additional debt financing if we experience downturns or cyclical fluctuations in our business that are more severe or longer than we anticipated when determining our current working capital needs. On May 17, 2019, we entered into our Current Credit Agreement that is discussed under the "Credit Arrangements" heading, below.

Cash and cash equivalents

(In thousands)	September 26, 2020	December 28, 2019	\$ Change	% Change
Cash and cash equivalents	\$ 182,268	\$ 118,081	\$ 64,187	54.4%

As of September 26, 2020, we had Cash and cash equivalents of \$182.3 million, of which approximately \$103.6 million was held by our foreign subsidiaries. We manage our global cash requirements considering, among other things, (i) available funds among our subsidiaries through which we conduct business, (ii) the geographic location of our liquidity needs, and (iii) the cost to access international cash balances. The repatriation of non-US earnings may require us to withhold and pay foreign income tax on dividends. This should not result in our recording significant additional tax expense as we have accrued expense based on current withholding rates. As of September 26, 2020, we could access all cash held by our foreign subsidiaries without incurring significant additional expense.

The net increase in Cash and cash equivalents of \$64.2 million between December 28, 2019 and September 26, 2020 was primarily driven by cash flows from the following activities:

Operating activities — Cash provided by operating activities results from net income adjusted for certain non-cash items and changes in assets and liabilities. Cash provided by operating activities for the first nine months of fiscal 2020 was \$69.0 million compared to \$84.8 million for the first nine months of fiscal 2019. This decrease of \$15.8 million was driven by changes in working capital, primarily the increase in accounts receivable and inventory partially offset by the reduction in prepaid expenses and other current assets, netting to \$24.8 million, which was partially offset by an increase of \$9.0 million provided by improved operating performance. We are using cash provided by operating activities to invest in our operations.

Investing activities — Investing cash flows consist primarily of transactions related to capital expenditures and payments for software licenses, and, in the prior year, short-term marketable securities. Net cash used by investing activities in the first nine months of fiscal 2020 was \$16.6 million compared to \$7.8 million in the first nine months of fiscal 2019. This \$8.8 million change was primarily due to the non-recurrence of the \$9.7 million provided by our liquidation of all short-term investments in the first quarter of fiscal 2019. Total cash used for capital expenditures and payments for software licenses decreased \$0.9 million to \$16.6 million in the first nine months of fiscal 2020 from \$17.5 million in the first nine months of fiscal 2019 primarily due to lower expenditures for test equipment and software enhancements.

Financing activities — Financing cash flows consist primarily of activity on our long-term debt, proceeds from the exercise of options to acquire common stock, and tax payments related to the net share settlement of restricted stock units. During the first nine months of fiscal 2020, we drew \$50.0 million on our revolving loan facility to further strengthen our liquidity position, and we paid quarterly installments totaling \$26.3 million on our long-term debt, which fulfilled the required quarterly installments through the first quarter of fiscal 2021. During the first nine months of fiscal 2019, we made a total of \$107.0 million in principal payments in addition to the cash flows related to refinancing our long-term debt. Payments for tax withholdings on vesting of RSUs partially offset by employee exercises of stock options used net cash flows of \$12.8 million in the first nine months of fiscal 2020, which is a change of approximately \$21.2 million from the \$8.4 million provided in the first nine months of fiscal 2019.

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Accounts receivable, net

(In thousands)	September 26, 2020	December 28, 2019	\$ Change	% Change
Accounts receivable, net	\$ 72,989	\$ 64,917	\$ 8,072	12.4%
Days sales outstanding - Overall	65	59	6	

Accounts receivable, net as of September 26, 2020 increased by approximately \$8.1 million, or 12%, compared to December 28, 2019. This increase resulted primarily from the timing of shipments to certain customers in September 2020 compared to December 2019. We calculate Days sales outstanding on the basis of a 365-day year as Accounts receivable, net at the end of the quarter divided by sales during the quarter annualized and then multiplied by 365.

Inventories

(In thousands)	September 26, 2020	December 28, 2019	\$ Change	% Change
Inventories	\$ 59,488	\$ 54,980	\$ 4,508	8.2%
Days of inventory on hand	133	123	10	

Inventories as of September 26, 2020 increased \$4.5 million, or approximately 8%, compared to December 28, 2019 primarily to meet the increased demands of our customers.

The Days of inventory on hand ratio compares the inventory balance at the end of a quarter to the cost of sales in that quarter. We calculate Days of inventory on hand on the basis of a 365-day year as Inventories at the end of the quarter divided by Cost of sales during the quarter annualized and then multiplied by 365. Our Days of inventory on hand increased to 133 days at September 26, 2020 from 123 days at December 28, 2019. This increase resulted from inventory increases to meet the increased demands of our customers.

Credit Arrangements

On May 17, 2019, we entered into our Credit Agreement with Wells Fargo Bank, National Association, as administrative agent, and other lenders. The details of this arrangement are described in "Note 6 - Long-Term Debt" in the Notes to Consolidated Financial Statements of our 2019 10-K.

As of September 26, 2020, we had no significant long-term purchase commitments for capital expenditures or existing used or unused credit arrangements beyond the secured revolving loan facility described above.

Share Repurchase Program

On March 24, 2020, we announced that our Board of Directors had approved a stock repurchase program pursuant to which up to \$40.0 million of outstanding common stock may be repurchased from time to time. The duration of the repurchase program is twelve months. No shares have been repurchased under this program during the quarter ended September 26, 2020. We expect that all future repurchases will be open market transactions funded from available working capital.

Contractual Cash Obligations

There have been no material changes to our contractual cash obligations outside of the ordinary course of business in the first nine months of fiscal 2020, as summarized in Management's Discussion and Analysis of Financial Condition and Results of Operations in the Company's Annual Report on Form 10-K for the year ended December 28, 2019.

Off-Balance Sheet Arrangements

As of September 26, 2020, we did not have any off-balance sheet arrangements of the type described by Item 303(a)(4) of SEC Regulation S-K.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk represents the risk of loss that may impact our financial position due to adverse changes in financial market prices and rates. Our market risk exposure is primarily a result of fluctuations in foreign currency exchange rates and interest rates. We assess these risks on a regular basis and have established policies that are designed to protect against the adverse effects of these and other potential exposures. There have been no material changes to either the foreign currency exchange rate risk or interest rate risk previously disclosed in Part II, Item 7A, "Quantitative and Qualitative Disclosures About Market Risk," of our Annual Report on Form 10-K for the fiscal year ended December 28, 2019.

ITEM 4. CONTROLS AND PROCEDURES

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

In connection with the filing of this Form 10-Q, our management, including our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of the end of the period covered by this report. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls were effective as of the end of the period covered by this report.

Changes in Internal Control over Financial Reporting

There were no changes in our internal controls over financial reporting (as defined in Rules 13a-15(f) under the Exchange Act) that occurred during the third quarter of fiscal 2020 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. We do not believe there has been any material impact to our internal controls over financial reporting notwithstanding that most of our employees are working remotely due to the COVID-19 pandemic. We continue to monitor and assess the COVID-19 situation on our internal controls to address any potential impact on their design and operating effectiveness.

Inherent Limitations on Effectiveness of Controls

We do not expect that our disclosure controls and procedures or our internal control over financial reporting will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of a simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people or by management override of the controls. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, controls may become inadequate because of changes in conditions, or the degree of compliance with policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

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PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The information set forth above under "[Note 11 - Contingencies - Legal Matters](#)" contained in the Notes to Consolidated Financial Statements is incorporated herein by reference.

ITEM 1A. Risk Factors

The risks described in Part I, Item 1A, "Risk Factors," in our Annual Report on Form 10-K for the fiscal year ended December 28, 2019 ("2019 10-K") could materially and adversely affect our business, financial condition, and results of operations, and the trading price of our common stock could decline. The additional risk factors described below supplements the risk factors described in our 2019 10-K based on information currently known to us and recent developments since the filing date of that report. The matters discussed below should be read in conjunction with the risk factors set forth in the 2019 10-K.

The risks described in this report and in our 2019 10-K are not the only risks facing our company. Additional risks and uncertainties not presently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition, and operating results, particularly in light of the rapidly changing nature of the COVID-19 pandemic, containment measures, and the related impacts to economic and operating conditions. These factors, together with all of the other information in this Quarterly Report on Form 10-Q, including our unaudited condensed consolidated financial statements and related notes included elsewhere in this Quarterly Report on Form 10-Q, should be carefully considered before making an investment decision relating to our common stock.

The COVID-19 pandemic could adversely affect our business, results of operations, and financial condition in a material way.

COVID-19 has spread internationally and been declared a pandemic, affecting the populations of the United States as well as many countries around the world. The outbreak has resulted in significant governmental measures being implemented to control the spread of COVID-19, including, among others, restrictions on travel, manufacturing and the movement of employees in many regions of the world, and the imposition of remote or work-from-home mandates in many of our offices, including in the United States, the Philippines and, for a time, China. The majority of our products are manufactured, assembled, and tested by third parties in Asia. In addition, we rely on third party vendors for certain logistics and shipping operations throughout the world, including in Malaysia, Singapore, South Korea, Japan, and Taiwan. We also have other operations in China, the Philippines, and the United States. If the remote or work-from-home conditions in any of our offices continue for an extended period of time, we may experience delays in product development, a decreased ability to support our customers, reduced design win activity, and overall lack of productivity.

Pandemics and epidemics such as the current COVID-19 outbreak or other widespread public health problems could negatively impact our business. If, for example, COVID-19 continues to progress in ways that significantly disrupt the manufacture, shipment, and buying patterns of our products or the products of our customers, this may materially negatively impact our operating results for the current period and subsequent periods, including revenue, gross margins, operating margins, cash flows and other operating results, and our overall business. Our customers may also experience closures of their manufacturing facilities or inability to obtain other components, either of which could negatively impact demand for our solutions. COVID-19 has negatively impacted the overall economy and, as a result of the foregoing, will likely negatively impact our operating results for the current fiscal year and may do so in a material way. In particular, COVID-19 may increase or change the severity of our other risks reported in our Annual Report on Form 10-K for the fiscal year ended December 28, 2019, including that:

- Our subcontractor suppliers who manufacture silicon wafers, packaging and testing to deliver our semiconductor products may be unable to meet delivery expectations to meet customer demand;
- Our distributors and customers may experience adverse performance and any reduction in the use of our products by our end customers could harm our sales and significantly decrease our revenue;
- The semiconductor industry could experience a cyclical downturn, which could cause a meaningful reduction in demand for our products and adversely affect our operating results;
- Countries may adopt tariffs and trade sanctions or similar actions;
- We may be delayed in our development and introduction of new products that achieve customer and market acceptance;
- Our operations may be disrupted if employees are unavailable due to illness, risk of illness, travel restrictions, work from home requirements, or other factors that may limit our access to key personnel or critical skills, or reduce productivity;
- Shortages in or increased costs for silicon wafers, packaging materials, testing and shipping could adversely impact our gross margin and lead to reduced revenue;

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- We may experience difficulty in maintaining the uninterrupted operation of our information technology systems, or be exposed to increased risk of a cyber-security incident or fraud, due to an increased reliance on remote work;
- We may incur impairments of goodwill and otherwise as required under U.S. GAAP;
- Our outstanding indebtedness could reduce our strategic flexibility and liquidity and may have other adverse effects on our results of operations.

The impact of COVID-19 may exacerbate the risk factors listed above and in our Annual Report on Form 10-K, or cause them to change in importance. Developments related to the pandemic have been rapidly changing, and additional impacts and risks may arise that we are not aware of or able to appropriately respond to currently. The ultimate impact of the COVID-19 pandemic on our operations and financial performance depends on many factors that are not within our control, including, but not limited to: governmental, business, and individuals' actions that have been and continue to be taken in response to the pandemic; general economic uncertainty in key global markets and financial market volatility; global economic conditions and levels of economic growth; and the pace of recovery when the COVID-19 pandemic subsides. As of the filing of this Quarterly Report, the extent to which the COVID-19 pandemic will affect our business is highly uncertain and dependent on future developments that are inherently unpredictable, which makes forecasting demand and providing guidance especially difficult. Accordingly, our expectations are subject to change without warning and investors are cautioned not to place undue reliance on them.

Our business could suffer as a result of tariffs and trade sanctions or similar actions.

The imposition by the United States of tariffs, sanctions or other restrictions on goods imported from outside of the United States or countermeasures imposed in response to such government actions could adversely affect our operations or our ability to sell our products globally, which could adversely affect our operating results and financial condition. The materials subject to these tariffs may impact the cost of raw materials used by our suppliers or in our customers' products. The imposition of further tariffs by the United States on a broader range of imports, or further retaliatory trade measures taken in response to additional tariffs, could increase costs in our supply chain or reduce demand of our customers' products, either of which could adversely affect our results of operations.

Our customers or suppliers could also become subject to U.S. regulatory scrutiny or export restrictions. For example, the U.S. Justice Department filed criminal charges against one of our customers in China and imposed a licensing requirement on this customer in May 2019, which has limited our ability to do business with this customer. In 2020, the U.S. imposed additional regulatory restrictions on the sale of U.S. controlled technology to customers in China, including establishing additional licensing requirements for the sale of U.S.-originated technology for certain applications or to companies that participate in

the Chinese national security supply chain and limiting the fabrication of devices for certain Chinese companies where U.S. technology is involved in the fabrication process. Furthermore, in August 2020 the U.S. established additional licensing requirements for one of our China customers and its affiliates that limit any sales of products to that customer or for that customer's products absent a license. The U.S. government may add additional Chinese companies to its restricted entity list or impose additional licensing requirements that we may be unable to meet in a timely manner or at all. Where license requirements are imposed, there can be no assurance that the U.S. government will grant licenses to permit the continuation of business with these customers. Future sanctions similar to those imposed in the past and to those recently imposed could adversely affect our ability to earn revenue from these and similar customers. In addition, the imposition of sanctions on customers in China may cause those customers to seek domestic alternatives to our products and those of other United States semiconductor companies. Further, the Chinese government has indicated its intention to develop an unreliable entity list, which may limit the ability of companies on the list to engage in business with Chinese customers. We cannot predict what impact these and future actions, sanctions or criminal charges could have on our customers or suppliers, and therefore our business. If any of our other customers or suppliers become subject to sanctions or other regulatory scrutiny, if our customers are affected by tariffs or other government trade restrictions, or if we become subject to retaliatory regulatory measures, our business and financial condition could be adversely affected.

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ITEM 6. EXHIBITS

Exhibit Number	Description
31.1	Certification of Chief Executive Officer pursuant to the Securities Exchange Act of 1934 Rule 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to the Securities Exchange Act of 1934 Rule 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	Inline XBRL Instance Document (the Instance Document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document)
101.SCH	Inline XBRL Taxonomy Extension Schema Document
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File - formatted in Inline XBRL and included in Exhibit 101

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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 thereunto duly authorized.

LATTICE SEMICONDUCTOR CORPORATION
(Registrant)

/s/ Sherri Luther

Sherri Luther

Chief Financial Officer

(Duly Authorized Officer and Principal Financial and Accounting Officer)

Date: October 29, 2020

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CERTIFICATION

I, James Anderson, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Lattice Semiconductor Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 29, 2020

/s/ James Anderson

James Anderson

Chief Executive Officer

CERTIFICATION

I, Sherri Luther, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Lattice Semiconductor Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 29, 2020

/s/ Sherri Luther

Sherri Luther

Chief Financial Officer

CERTIFICATION OF CHIEF EXECUTIVE OFFICER PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Lattice Semiconductor Corporation (the Company) on Form 10-Q for the quarter ended September 26, 2020 (the Report), I, James Anderson, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

A signed original of this written statement has been provided to the Company and will be retained by the Company and furnished to the SEC or its staff upon request.

/s/ James Anderson
James Anderson
Chief Executive Officer

Date: October 29, 2020

CERTIFICATION OF CHIEF FINANCIAL OFFICER PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Lattice Semiconductor Corporation (the Company) on Form 10-Q for the quarter ended September 26, 2020 (the Report), I, Sherri Luther, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

A signed original of this written statement has been provided to the Company and will be retained by the Company and furnished to the SEC or its staff upon request.

/s/ Sherri Luther
Sherri Luther
Chief Financial Officer

Date: October 29, 2020