UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended July 3, 2004

OR

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

For the transition period from to

Commission file number 000-18032

LATTICE SEMICONDUCTOR CORPORATION

(Exact name of Registrant as specified in its charter)

State of Delaware	**93-0835214**
(State or other jurisdictionof incorporation or organization)	(I.R.S. EmployerIdentification No.)
5555 N.E. Moore Court, Hillsboro, Oregon	**97124-6421**
(Address of principal executive offices)	(Zip Code)

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

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No o

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes ☒ No o

At July 3, 2004, there were 113,421,226 shares of the Registrant’s common stock, $.01 par value, outstanding.

The information contained in this Form 10-Q is as of August 10, 2004. This Form 10-Q should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2003.

LATTICE SEMICONDUCTOR CORPORATION

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Forward-Looking Statements

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Exchange Act. Any statements about our expectations, beliefs, plans, objectives, assumptions or future events or performance are not historical facts and may be forward-looking. We use words or phrases such as “anticipates,” “believes,” “estimates,” “expects,” “intends,” “plans,” “projects,” “may,” “will,” “should,” “continue,” “ongoing,” “future,” “potential” and similar words or phrases to identify forward-looking statements.

Forward-looking statements involve estimates, assumptions, risks and uncertainties that could cause actual results to differ materially from those expressed in them. Among the key factors that could cause our actual results to differ materially from the forward-looking statements are delay in product or technology development, change in economic conditions of the various markets we serve, lack of market acceptance or demand for our new products, dependencies on silicon wafer suppliers and semiconductor assemblers, the impact of competitive products and pricing, opportunities or acquisitions that we pursue, the availability and terms of financing, and the other risks that are described herein and that are otherwise described from time to time in our filings with the Securities and Exchange Commission, including but not limited to the items discussed in “Factors Affecting Futu re Results” set forth in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in Item 2 of this report. You should not unduly rely on forward-looking statements because our actual results could materially differ from those expressed in any forward-looking statements made by us. Further, any forward-looking statement applies only as of the date on which it is made. We are not required to update any forward-looking statement or statements to reflect events or circumstances after the date on which such statement is made or to reflect the occurrence of unanticipated events.

PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements

LATTICE SEMICONDUCTOR CORPORATION

CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS
(In thousands, except per share data)
(unaudited)

	Three Months Ended		Six Months Ended	
	June 30, 2004	June 30, 2003	June 30, 2004	June 30, 2003
Revenue	$ 60,939	$ 56,575	$ 120,010	$ 113,872
Costs and expenses:				
Cost of products sold	26,232	22,993	50,951	46,021
Research and development	22,599	21,702	44,858	43,534
Selling, general and administrative	14,069	12,614	27,156	25,097
Amortization of intangible assets (1)	17,051	18,687	35,705	39,801
Total costs and expenses	79,951	75,996	158,670	154,453
Loss from operations	(19,012)	(19,421)	(38,660)	(40,581)
Other income (expense), net	3,136	(1,365)	6,243	126
Loss before benefit for income taxes	(15,876)	(20,786)	(32,417)	(40,455)
Income tax (benefit) expense	100	(2,554)	100	(2,554)
Net loss	$ (15,976)	$ (18,232)	$ (32,517)	$ (37,901)
Basic net loss per share	$ (0.14)	$ (0.16)	$ (0.29)	$ (0.34)
Diluted net loss per share	$ (0.14)	$ (0.16)	$ (0.29)	$ (0.34)
Shares used in per share calculations:				
Basic	112,812	111,507	112,728	111,473
Diluted	112,812	111,507	112,728	111,473

(1) Includes $1,324 and $841 of amortization of deferred stock compensation expense for the three months ended June 30, 2004 and June 30, 2003, respectively, and $2,130 and $4,111 for the six months ended June 30, 2004 and June 30, 2003, respectively, attributable to Research and Development activities.

See Accompanying Notes to Condensed Unaudited Consolidated Financial Statements

LATTICE SEMICONDUCTOR CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEET
(In thousands, except share and par value data)
(unaudited)

	June 30, 2004	December 31, 2003
Assets		
Current assets:		
Cash and cash equivalents	$ 43,508	$ 35,276
Short-term investments	267,326	242,474
Accounts receivable, net	28,937	26,796
Inventories	40,770	46,630
Other current assets	51,118	51,537
Total current assets	431,659	402,713
Foundry investments, advances and other assets	55,733	86,883
Property and equipment, net	51,774	53,800
Intangible assets, net	51,096	84,676
Goodwill	223,556	223,556
	$ 813,818	$ 851,628
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable and accrued expenses	$ 28,006	$ 28,500
Deferred income on sales to distributors	15,939	10,564
Income taxes payable	7	37
Total current liabilities	43,952	39,101
Zero Coupon Convertible notes due in 2010	184,000	184,000
Other long-term liabilities	23,090	22,415
Commitments and contingencies	—	—
Stockholders' equity:		
Preferred stock, $.01 par value, 10,000,000 shares authorized; none issued or outstanding	—	—
Common stock, $.01 par value, 300,000,000 shares authorized, 113,421,226 and 113,047,874 shares issued and outstanding	1,134	1,130
Paid-in capital	589,458	586,834
Deferred stock compensation	(3,246)	(5,444)
Accumulated other comprehensive income	4,558	20,203
Retained earnings (deficit)	(29,128)	3,389
Total stockholders' equity	562,776	606,112
	$ 813,818	$ 851,628

See Accompanying Notes to Condensed Unaudited Consolidated Financial Statements.

LATTICE SEMICONDUCTOR CORPORATION
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
(In thousands) (unaudited)

	Six Months Ended	
	June 30, 2004	June 30, 2003
Cash flows from operating activities:		
Net loss	$ (32,517)	$ (37,901)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	47,111	50,575
Gain on sale of UMC Shares	(5,562)	—
Gain on retirement of convertible notes	—	(2,918)
Changes in assets and liabilities:		
Accounts receivable	(2,141)	(1,997)
Inventories	5,860	7,958
Other current assets	1,492	24,084
Foundry investments, advances and other assets	(310)	235
Accounts payable and accrued expenses	(399)	(910)
Deferred income	5,375	(2,379)
Income taxes payable	(30)	(142)
Other liabilities	(64)	(903)
Total adjustments	51,332	73,603
Net cash provided by operating activities	18,815	35,702
Cash flows from investing activities:		
Proceeds from sale of short-term investments	103,646	236,019
Purchase of short-term investments	(128,498)	(283,053)
Proceeds from sales of equity securities	18,898	—
Capital expenditures	(6,838)	(5,715)
Net cash used by investing activities	(12,792)	(52,749)
Cash flows from financing activities:		
Retirement of convertible notes	—	(32,555)
Issuance of convertible debt, net	—	195,000
Net proceeds from issuance of common stock	2,209	865
Net cash provided by (used in) financing activities	2,209	163,310
Net increase (decrease) in cash and cash equivalents	8,232	146,263
Beginning cash and cash equivalents	35,276	169,475
Ending cash and cash equivalents	$ 43,508	$ 315,738
Supplemental disclosures of non-cash investing and financing activities:		
Unrealized (loss) gain on (depreciation) appreciation of foundry investments included in other comprehensive income	$ (11,221)	$ 1,398

See Accompanying Notes to Condensed Unaudited Consolidated Financial Statements.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1 - Basis of Presentation:

The accompanying condensed consolidated financial statements are unaudited and have been prepared by Lattice Semiconductor Corporation ("the Company") pursuant to the rules and regulations of the Securities and Exchange Commission and in our opinion include all adjustments, consisting only of normal recurring adjustments, necessary for the fair statement of results for the interim periods. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. These 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 31, 2003.

The preparation of financial statements in conformity with generally accepted accounting principles requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the periods presented. Actual results could differ from these estimates.

We report based on a 52 or 53 week year ending on the Saturday closest to December 31. For ease of presentation, we have adopted the convention of using March 31, June 30, September 30, and December 31, as period end dates for all financial statement captions.

This Quarterly Report on Form 10-Q contains forward looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended and Section 21E of the Securities Exchange Act of 1934, as amended. Actual results could differ materially from those projected in the forward-looking statements as a result of the factors, set forth in the section entitled "Factors Affecting Future Results" and elsewhere in this report.

Note 2 - Revenue Recognition:

Revenue from sales to OEM customers is recognized upon shipment provided that persuasive evidence of an arrangement exists, the price is fixed or determinable, title has transferred, collection of resulting receivables is probable, there are no customer acceptance requirements and no remaining significant obligations. Certain of our sales are made to distributors under agreements providing price protection and right of return on unsold merchandise. Revenue and cost relating to such distributor sales are deferred until either the product is sold by the distributor or return privileges and price protection rights terminate, and related estimated revenue and estimated costs are then reflected in income. Revenue from software sales was not material for the periods presented.

Note 3 – Net Loss Per Share:

Net loss per share is computed based on the weighted average number of shares of common stock and potentially dilutive securities assumed to be outstanding during the period using the treasury stock method. Potentially dilutive securities consist of stock options, warrants to purchase common stock and convertible subordinated notes.

The most significant difference between the computation of basic and diluted net income per share is that basic net income per share does not treat potentially dilutive securities such as stock options, warrants and convertible subordinated notes as outstanding. For all periods presented, the computation of net loss per share excludes the effect of our stock options, warrants and convertible notes, as they were antidilutive. A reconciliation of basic and diluted net loss per share is presented below (in thousands, except for per share data):

	Three months ended		Six months ended	
	June 30, 2004	June 30, 2003	June 30, 2004	June 30, 2003
Net loss	$ (15,976)	$ (18,232)	$ (32,517)	$ (37,901)
Shares used in basic net loss per share calculations	112,812	111,507	112,728	111,473
Dilutive effect of stock options, warrants and other potentially dilutive securities	—	—	—	—
Shares used in diluted net loss per share	112,812	111,507	112,728	111,473
Basic net loss per share	$ (0.14)	$ (0.16)	$ (0.29)	$ (0.34)
Diluted net loss per share	$ (0.14)	$ (0.16)	$ (0.29)	$ (0.34)

Stock-Based Compensation

We account for our employee and director stock options and employee stock purchase plan in accordance with provisions of Accounting Principles Board Opinion No. 25 (“APB 25”), “Accounting for Stock Issued to Employees.” Pro forma disclosures as required under SFAS 123, “Accounting for Stock-Based Compensation” and as amended by SFAS 148, “Accounting for Stock-Based Compensation – Transition and Disclosure,” are presented below. Pursuant to FASB Interpretation No. 44 “Accounting for Certain Transactions Involving Stock Based Compensation – an interpretation of APB Opinion No. 25,” effective July 1, 2000, the “in the money” portion of stock options granted to employees in connection with acquisitions is accounted for as Deferred Stock Compensation in Stockholders’ Equity and amortized to operations as part o f amortization of intangible assets over the vesting periods of the options.

The fair value of our stock-based employee compensation cost for purposes of our pro forma disclosures was estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions:

	Grants for			
	Three months ended		Six months ended	
	June 30, 2004	June 30, 2003	June 30, 2004	June 30, 2003
Stock Options:				
Expected Volatility	51.8%	57.1%	52.3%	58.1%
Risk-free interest rate	3.2%	1.9%	3.0%	2.1%
Expected life from vesting date	1.5 years	1.6 years	1.5 years	1.6 years
Dividend yield	0%	0%	0%	0%

The Black-Scholes option-pricing model was developed for use in estimating the fair value of freely tradable, fully transferable options without vesting restrictions. Our stock options have characteristics, which differ significantly from those of freely tradable, fully transferable options. The Black-Scholes option pricing model also requires highly subjective assumptions, including expected stock price volatility and expected stock option term which greatly affect the calculated fair value of an option. Our actual stock price volatility and option term may be materially different from the assumptions used herein.

As pertaining to activity for the three and six months ended June 30, 2004 and 2003, the resultant grant date weighted-average fair values calculated using the Black-Scholes option pricing model and the noted assumptions for stock options granted were $3.06 and $3.97 for the second quarter of 2004 and 2003, respectively, and $3.42 and $1.25 for the six months ended June 30, 2004 and 2003, respectively. For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting period.

Our pro forma information is as follows (in thousands, except per share data):

	Three months ended		Six months ended	
	June 30, 2004	**June 30, 2003**	**June 30, 2004**	**June 30, 2003**
Net loss, as reported	$ (15,976)	$ (18,232)	$ (32,516)	$ (37,901)
Add: Stock based employee compensation expense included in reported loss	1,324	841	2,130	4,111
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(5,127)	(8,077)	(10,158)	(15,508)
Pro forma net loss	$ (19,779)	$ (25,468)	$ (40,545)	$ (49,298)
Net loss per share:				
Basic-as reported	$ (0.14)	$ (0.16)	$ (0.29)	$ (0.34)
Basic- pro forma	$ (0.18)	$ (0.23)	$ (0.36)	$ (0.44)
Diluted-as reported	$ (0.14)	$ (0.16)	$ (0.29)	$ (0.34)
Diluted-pro forma	$ (0.18)	$ (0.23)	$ (0.36)	$ (0.44)

Note 4 - Inventories (in thousands):

	June 30, 2004	**Dec. 31, 2003**
Work in progress	$ 27,528	$ 34,327
Finished goods	13,242	12,303
	$ 40,770	$ 46,630

Note 5 - Changes in Stockholders’ Equity (in thousands):

	Common Stock	Paid-in Capital	Deferred Stock Compensation	Accumulated Other Comprehensive Income/(Loss)	Retained Earnings (Deficit)	Total
Balances, Dec. 31, 2003	$ 1,130	$ 586,834	$ (5,444)	$ 20,203	$ 3,389	$ 606,112
Common stock issued	4	2,692	—	—	—	2,696
Unrealized loss on foundry investments, net (Note 9)	—	—	—	(11,221)	—	(11,221)
Recognized gain on sale of UMC stock (Note 9)	—	—	—	(4,555)	—	(4,555)
Unrealized gain on stock holdings	—	—	—	203	—	203
Deferred stock compensation	—	(68)	68	—	—	—
Amortization of deferred stock compensation	—	—	2,130	—	—	2,130
Translation adjustment	—	—	—	(72)	—	(72)
Net loss for the six-month period	—	—	—	—	(32,517)	(32,517)
Balances, June 30, 2004	$ 1,134	$ 589,458	$ (3,246)	$ 4,558	$ (29,128)	$ 562,776

Total comprehensive loss for the first six-month period of 2004 was approximately $48.2 million comprised primarily of $32.5 million net loss from operations, $11.2 million in unrealized loss related primarily to foundry investments, and a $4.6 million gain on sale of foundry investments previously included in other comprehensive income.

Note 6 – Goodwill and Purchased Intangible Assets

As a result of adopting SFAS 142 "Intangible Assets" in 2002, goodwill and certain intangibles with indefinite lives are no longer being amortized. To apply SFAS 142, a company is divided into separate “reporting units,” each representing groups of products that are separately managed. For this purpose, we have one reporting unit. To determine whether or not goodwill may be impaired, a test is required comparing the book value of the “reporting unit” to its trading price. Similar tests are required in the future, at least annually, and more often where there is a change in circumstances that could result in an impairment of goodwill. If the trading price of our common stock is below the book value for a sustained period, a goodwill impairment test will be performed by comparing book value to estim ated market value (trading price plus a control premium). The excess of book value over estimated market value will then be subtracted from the goodwill account with a resulting charge to operations. Subsequent unrealized recoveries in market value, if any, will not be recorded. We completed our annual goodwill impairment assessment in December 2003, upon which no impairment charge was recorded. Additional goodwill impairment tests will be performed at least annually.

The following tables present details of the Company's total purchased intangible assets (in millions):

June 30, 2004	Gross	Accumulated amortization	Net
Current technology	$ 273.6	$ (239.5)	$ 34.1
Core technology	7.3	(2.6)	4.7
Licenses	10.2	(3.6)	6.6
Non-compete agreements	14.3	(11.6)	2.7
Workforce	4.7	(1.7)	3.0
Backlog	1.4	(1.4)	—
Customer list	17.4	(17.4)	—
Patents and trademarks	26.8	(26.8)	—
Total	$ 355.7	$ (304.6)	$ 51.1

December 31, 2003	Gross	Accumulated amortization	Net
Current technology	$ 273.6	$ (214.3)	$ 59.3
Core technology	7.3	(1.9)	5.4
Licenses	10.2	(2.9)	7.3
Non-compete agreements	14.3	(9.2)	5.1
Workforce	4.7	(1.2)	3.5
Backlog	1.4	(1.4)	—
Customer list	17.4	(15.8)	1.6
Patents and trademarks	26.8	(24.3)	2.5
Total	$ 355.7	$ (271.0)	$ 84.7

The estimated future amortization expense of purchased intangible assets as of June 30, 2004 is as follows (in millions):

Fiscal Year:	Amount
2004 (remaining six months)	$ 10.3
2005	14.4
2006	10.8
2007	9.8
Later years	5.8
	$ 51.1

The estimated future amortization expense of deferred stock compensation attributable to Research and Development activities as of June 30, 2004 is approximately $1.3 million for the remainder of 2004 and $1.9 million for 2005.

Note 7 - New Accounting Pronouncements:

In January 2003, the Financial Accounting Standards Board ("FASB") issued Financial Standards Accounting Board Interpretation ("FIN") No. 46, "Consolidation of Variable Interest Entities," an interpretation of Accounting Research Bulletin No. 51, "Consolidated Financial Statements." FIN 46 establishes accounting guidance for consolidation of a variable interest entity. In a variable interest entity the equity investors do not have a controlling interest or their equity interest is insufficient to finance the entity's activities without receiving additional subordinated financial support from the other parties. We do not currently have any business relationship with a variable interest entity, so the adoption of FIN 46 had no impact on our consolidated financial position or results of operations.

In May 2003, the FASB issued SFAS 150, “Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity.” This pronouncement establishes standards for how an issuer classifies and measures in its statement of financial position certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in certain circumstances) because that financial instrument embodies an obligation of the issuer. SFAS 150 is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective for interim periods beginning after June 15, 2003. On November 7, 2003, FASB issued FASB Staff Position No. FAS 150-3 (“FSP 150-3”), “Effective Date, Disclosures, and Transition for Mandatorily Redeemable Financial Instruments of Certain Nonpublic Entities and Certain Mandatorily Redeemable Noncontrolling Interests under FASB Statement No. 150, *Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity.*” FSP 150-3 deferred certain aspects of SFAS 150. The adoption of SFAS 150 and FSP 150-3 did not have a material impact on our results of operations, financial position or cash flows.

In March 2004, the Emerging Issues Task Force finalized its consensus on EITF Issue 03-6, “Participating Securities and the Two-Class Method Under FASB Statement No. 128, Earnings Per Share” (EITF 03-6). EITF 03-6 clarifies what constitutes a participating security and requires the use of the two-class method for computing basic earnings per share when participating convertible securities exist. EITF 03-6 is effective for fiscal periods beginning after March 31, 2004. The adoption of EITF 03-6 did not have a material effect on our results of operations.

In March 2004, the Emerging Issues Task Force reached a consensus on recognition and measurement guidance previously discussed under EITF 03-01. The consensus clarifies the meaning of other-than-temporary impairment and its application to investments classified as either available-for-sale or held-to-maturity under FASB Statement No. 115, Accounting for Certain Investments in Debt and Equity Securities. The recognition and measurement guidance for which the consensus was reached in the March 2004 meeting is to be applied to other-than-temporary impairment evaluations in reporting periods beginning after June 15, 2004. As our accounting estimating methodology for other-than-temporary impairment evaluations is consistent with EITF 03-01, we do not believe adoption will have a material effect on our consolidated financial statements.

In April 2004, the Financial Accounting Standards Board issued FASB Staff Position (FSP)129-1, “Disclosure Requirements under FASB Statement 129, Disclosure of Information about Capital Structure, Relating to Contingently Convertible Securities”, further defining disclosure requirements for convertible notes, among other things. As a result of adopting FSP 129-1, we further described circumstances under which note holders may convert their notes into our common shares before note maturity.

Note 8 - Legal Matters:

We are exposed to certain asserted and unasserted potential claims. There can be no assurance that, with respect to potential claims made against us, that we could resolve such claims under terms and conditions that would not have a material adverse effect on our financial position, cash flows or results of operations.

Note 9 – Foundry Investment:

In 1995, we entered into a series of agreements with United Microelectronics Corporation (“UMC”), a public Taiwanese company, pursuant to which we agreed to join UMC and several other companies to form a separate Taiwanese corporation, (“UICC”), for the purpose of building and operating an advanced semiconductor manufacturing facility in Taiwan, Republic of China. Under the terms of the agreements, we invested $49.7 million for an approximate 10% equity interest in the corporation and the right to receive a percentage of the facility’s wafer production at market prices.

In 1996, we entered into an agreement with Utek Corporation (“Utek”), a public Taiwanese company in the wafer foundry business that became affiliated with the UMC group in 1998, pursuant to which we agreed to make a series of equity investments in Utek under specific terms. In exchange for these investments, we received the right to purchase a percentage of Utek’s wafer production. Under this agreement, we invested $17.5 million. On January 3, 2000, UICC and Utek merged into UMC.

As of June 30, 2004, we owned 71.7 million shares of UMC common stock of which approximately 23.3 million are restricted from sale for more than one year by the terms of our agreement with UMC. Under the terms of the UMC agreement, if we sell any of these restricted shares, our rights to guaranteed wafer capacity at UMC may be reduced on a pro-rata basis based on the number of shares that we sell. If we sell over 10.1 million of these restricted shares, we may lose all of our rights to guaranteed wafer capacity at UMC.

For financial reporting purposes, all of our UMC shares are accounted for as available for sale and marked to market in our Consolidated Balance Sheet until they are sold, at which time a gain or loss is recognized in our Consolidated Statement of Operations. Unrealized gains and losses are included in Accumulated other comprehensive (loss) income within Stockholders' Equity. An other than temporary impairment of UMC share value could result in a reduction of the Consolidated Balance Sheet carrying value and would result in a charge to our Consolidated Statement of Operations.

The carrying value of our investment in UMC was approximately $52.1 million and $81.1 million at June 30, 2004 and December 31, 2003, respectively, and this balance is classified as part of Other current assets ($29.1 million and $35.4 million at June 30, 2004 and December 31, 2003) and Foundry investments, advances and other assets. During the first half of 2004, we sold 20 million UMC shares for a gain of $5.6 million of which $4.6 was already recorded as an unrealized gain in Accumulated Other Comprehensive Income. Also in the first half of 2004, we recorded an $11.2 million decrease in unrealized gain related primarily to the market value of our UMC shares. If we liquidate our UMC shares, it is likely that the amount of any future realized gain or loss will be different from the accounting gain or loss reported in prior periods**.**

Note 10 – Segment and Geographic Information:

We operate in one industry segment comprising the design, development, manufacture and marketing of high performance programmable logic devices. Our revenue by major geographic area were as follows (in thousands):

	Three Months Ended		**Six Months Ended**	
	June 30, 2004	**June 30, 2003**	**June 30, 2004**	**June 30, 2003**
United States:	$ 15,257	$ 19,334	$ 33,125	$ 36,767
Export:				
Europe	13,865	14,549	28,062	31,958
Asia Pacific (other than Japan)	20,964	13,498	37,845	26,359
Japan	7,918	5,745	14,740	11,372
Other	2,935	3,449	6,238	7,416
	$ 60,939	$ 56,575	$ 120,010	$ 113,872

Resale of product through two distributors accounted for approximately 13% and 11% of revenue in the first six months of 2004, and 14% and 10%, respectively, for the first six months of 2003. More than 90% of our property and equipment is located in the United States. Other long-lived assets located outside the United States consist primarily of foundry investments and advances.

Note 11 - Stock Option Exchange Program:

On March 14, 2003, we completed an exchange offer related to a stock option exchange program. Under the exchange offer, eligible employees had the opportunity to tender for cancellation certain stock options in exchange for new options to be granted at least six months and one day after the cancellation of the tendered options. Each eligible participant received new options to purchase four shares of common stock for every seven shares subject to options submitted for cancellation. We accepted options to purchase 11.2 million shares for exchange at various exercise prices between $6.30 and $32.25 and granted new options to purchase 6.4 million shares on September 18, 2003, the new grant date. The exercise price per share of the new options of $8.21 was equal to the fair market value of our common stock on the new grant date. In connection with the stock option excha nge program, we accelerated the write-off of accrued deferred compensation recorded in conjunction with certain of our acquisitions, due to the cancellation of certain assumed in-the-money stock options. Such acceleration resulted in $2.2 million of additional intangible asset amortization expense in the first quarter of 2003. However, we do not expect to record any additional compensation expense as a result of the exchange program.

Note 12 – Subsequent events:

For the period from July 4, 2004 through August 10, 2004, we extinguished $15.0 million of our 0% Subordinated Convertible Notes due in 2010 for $12.0 million in cash resulting in a gain of $2.8 million net of $0.2 million of related debt discount expense. This gain will be reported as Other Income in the financial results for the quarter ended September 30, 2004.

On August 6, 2004, we agreed in principle with the U. S. Department of Commerce to settle charges that we did not comply with Export Administration Regulations between 2000 and 2002. The settlement will result in a fine of $560,000. Provision for these costs has been made in prior years financial statements. The charges involved the exportation of controlled semiconductor devices to a Hong Kong distributor that subsequently re-exported those devices to the Peoples Republic of China (PRC), and the release of controlled semiconductor manufacturing technology to nationals of the PRC employed by Lattice in the United States, as well as the exportation of such manufacturing technology to our design center in the PRC. We voluntarily disclosed these circumstances to the Department, cooperated fully with an investigation of our export practices and procedures, and have imple mented enhancements to strengthen our export control procedures.

ITEM 2. Management's Discussion and Analysis of Results of Operations and Financial Condition

Lattice Semiconductor Corporation designs, develops and markets high performance programmable logic devices, or PLDs, and related software. Programmable logic devices are widely used semiconductor components that can be configured by the end customer as specific logic circuits, and enable the end customer to shorten design cycle times and reduce development costs. Our end customers are primarily original equipment manufacturers in the communications, computing, industrial, automotive, medical, consumer and military end markets.

Overview of three month and six month periods ending June 30, 2004

Revenue for our business in the second quarter and six months ended June 2004 grew to $60.9 million and $120.0 million, compared to $56.6 million and $113.9 million for the same periods a year ago. The increase in revenue was due to growth of our New* products while growth of our Mainstream* products was more than offset by a decline in our Mature* products. This improvement is attributable to general strengthening in the PLD market and improvement in the Communications end market. Future revenue growth is dependent on, among other things, continued favorable business conditions in our end markets and market acceptance of our new products.

Our gross margin percentage declined in the second quarter and first half of 2004 by 2.4% and 2.1%, respectively, compared to the same periods in 2003, primarily due to growth in New products which currently carry a lower margin, and a decline in revenue from Mature products, which have a higher gross margin.

Research and development expenses increased to $22.6 million (37.1% of revenue) and $44.9 million (37.4% of revenue) in the second quarter and first half of 2004, compared to $21.7 million (38.4% of revenue) and $43.5 million (38.2% of revenue) in the second quarter and first half of 2003, respectively. While there were no significant cost changes in the major categories of research and development expense between the periods, cost increases were attributable to masks for new products. The majority of research and development spending is related to the continued development of next generation FPGA products. We expect research and development spending to increase in the second half of the year by up to $2 million to $3 million from present levels due to increased development costs related to the planned introduction of our next generation FPGA products.

Selling, general and administrative expenses increased to $14.1 million (23.1% of revenue) and $27.2 million (22.6% of revenue) in the second quarter and first half of 2004, compared to $12.6 million (22.3% of revenue) and $25.1 million (22.0% of revenue) in the second quarter and first half of 2003, respectively, primarily due to sales and marketing expenses related to new products. To the extent our revenues continue to grow, we expect that there will be a less than proportionate increase in our selling general and administrative expenses.

Amortization of intangible assets was $17.1 million and $35.7 million in the second quarter and first half of 2004, respectively. Amortization of intangible assets acquired in the Vantis acquisition was completed during the June 30, 2004 quarter. As a result, amortization declined by approximately $1.5 million in the June 30, 2004 quarter and will decline by approximately an additional $11.1 million in the September 30, 2004 quarter.

Other income (net) was $3.1 million and $6.2 million in the second quarter and first half of 2004, and included a gain on the sale of UMC shares (see Note 9 to the Condensed Unaudited Consolidated Financial Statements) of $3.0 million and $5.6 million, respectively, interest and dividends on short term investments and cash equivalents, partially offset by amortization of issuance costs on Zero Coupon Convertible Subordinated Notes due July 1, 2010. To the extent market conditions allow, we may make similar sales of UMC shares in future quarters. Also refer to Note 12 to the Condensed Unaudited Consolidated Financial Statements. We are paying foreign income taxes which are reflected in the Statement of Operations and are primarily related to the cost of operating our off shore sales subsidiaries. We are not currently paying federal or state income taxes and do not expect to pay or accrue such taxes in 2004.

* Product Classification:
New: FPSC, XPLD, XPGA, GDX2, ORCA 4, ispMACH 4000,
ispMACH 4000Z, ispPAC-PWR
Mainstream: ORCA 3, GDX/V, ispMACH L/V, ispLSI 2000V, ispLSI 5000V,
ispLSI 8000V, ispMACH 5000VG, and Other
Mature: ORCA 2, All 5-Volt CPLDs, All SPLDs

Results of Operations

Key elements of our consolidated statement of operations, expressed as a percentage of revenues, were as follows:

	Three Months Ended		**Six Months Ended**	
	June 30, 2004	**June 30, 2003**	**June 30, 2004**	**June 30, 2003**
Revenue	100.0%	100.0%	100.0%	100.0%
Gross margin	57.0%	59.4%	57.5%	59.6%
Research and development expenses	37.1%	38.4%	37.4%	38.2%
Selling, general and administrative expenses	23.1%	22.3%	22.6%	22.0%
Amortization of intagible assets	28.0%	33.0%	29.8%	35.0%
Loss form operations	(31.2)%	(34.3)%	(32.2)%	(35.6)%

Revenue:

Revenue for the second quarter of 2004 increased by $4.4 million, or 7.7%, as compared to the second quarter of 2003, and by $6.1 million, or 5.4% for the first six months of 2004 when compared to the first six months of 2003. The composition of our revenue by product family for the second quarter and first six months of 2004 and 2003, respectively, was as follows:

	Three Months Ended		**Six Months Ended**	
	June 30, 2004	**June 30, 2003**	**June 30, 2004**	**June 30, 2003**
FPGA	18%	16%	19%	15%
PLD (CPLD and SPLD)	82%	84%	81%	85%

As a percentage of total revenue, U.S. sales declined to 25% and 28% for the second quarter of 2004 and for the first six months of 2004, respectively, compared to 34% and 32% for the second quarter and the first six months of 2003, respectively. Export sales to Japan rose as a percentage of total revenue, to 13% and 12% in the second quarter and the first six months of 2004 from 10% in the second quarter and in the first six months of 2003. Export sales to Europe decreased comparing both fiscal periods, in absolute and percentage terms to 23% for the second quarter and for the first six months of 2004 compared to 26% and 28% for the second quarter and first six months of 2003, respectively. Export sales to the rest of world (predominantly Asia Pacific) rose in absolute and percentage terms in the second quarter and first half of 2004 compared to 2003 to 39% and 37% for the second quar ter and first half of 2004, respectively, from 30% in both the second quarter and first half of 2003.

During the second quarter and first half of 2004 compared to the same periods in 2003, units sold increased by 12% and 5%, respectively while average selling prices decreased 4% and 2%, respectively. The increase in units sold is attributable to New and Mainstream products. The decrease in average selling prices is attributable to product mix. Our ability to achieve revenue growth is in large part dependent on the continued development, introduction and market acceptance of New products. See “Factors Affecting Future Results.”

Gross margin:

Gross margin grew in absolute terms but declined as a percentage of revenue for all periods presented reflecting revenue growth in new products, which currently carry a lower margin, and a decline in revenue from mature products, which have a higher gross margin.

Research and development:

Research and development expenses increased by $0.9 million and $1.3 million, respectively, in the second quarter and first six months of 2004 when compared to the same calendar periods in 2003, reflecting cost increases attributable to masks for new products. Research and development expenses consist primarily of labor, masks, prototype wafers, third-party design automation software, assembly tooling and qualification expenses. We believe that a continued commitment to research and development is essential in order to maintain product leadership of our existing product families and to provide innovative new product offerings, and therefore we expect to continue to make significant future investments in research and development.

Selling, General and Administrative Expense:

Selling, general and administrative (“SG&A”) expenses increased approximately $1.5 million and $2.1 million, respectively, in the second quarter and first six months of 2004 when compared to the same periods of 2003. These increases were primarily due to increased sales commissions on higher revenue and marketing expenses to support the next generation FPGA launch.

Amortization of Intangible Assets:

Amortization of intangible assets is related to our 2002 acquisitions of Agere FPGA and Cerdelinx, our 1999 Vantis acquisition and our 2001 acquisition of Integrated Intellectual Property, Inc. (“I2P”). Amortization expense was $17.1 million and $35.7 million in the second quarter and first six months of 2004, a decrease of $1.6 million and $4.1 million when compared to the same calendar periods of 2003. The most significant portion ($2.2 million) of the six month decrease resulted from the accelerated write-off of accrued deferred compensation recorded in the first quarter of 2003 in conjunction with certain of our acquisitions, due to the cancellation of certain assumed in-the-money stock options as part of a stock option exchange program initiated during the first quarter of 2003 (refer to Note 11 to the Condensed Unaudited Consolidated Financial Statements). The remaining decrease resulted from completion of the amortization of intangible assets related to our purchase of Vantis.

Other income (expense), net:

Other income (expense), net, was $3.1 million and $6.2 million, respectively, in the second quarter and first six months of 2004, as compared to $(1.4) million and $0.1 million, respectively, for the same periods of 2003. Gains on the sale of UMC shares (see Note 9 to the Condensed Unaudited Consolidated Financial Statements) of $3.0 million and $5.6 million are included in the second quarter and first six months of 2004, respectively. There were no similar sales in the comparable periods of 2003. During the first quarter of 2003, we recorded a gain of approximately $2.9 million in connection with the extinguishment of a portion of our 4 ¾% convertible notes. Our 4 ¾% convertible debt was subsequently extinguished in the third quarter of 2003, resulting in a reduction of interest expense for the quarter and six month period ended June 30, 2004 of $1.9 million and $3.8 million , respectively as compared to the same periods in 2003. Additional reductions in other income resulted from a reduction in interest income on invested balances caused by lower interest rates.

Benefit for income taxes:

No Federal or state income taxes have been provided for in the first half of 2004 or 2003. This is the result of the following factors:

1) We continued to experience significant losses during the first half of 2004 and 2003 and are currently not paying any Federal or state income taxes;

2) Net operating loss carry backs and credit carry backs available in prior periods are no longer available; and,

3) In the fourth quarter of 2002, we recorded a $118.6 million charge to income tax expense, representing a valuation allowance on our recorded deferred tax assets, in accordance with SFAS 109, “Accounting for Income Taxes.” We provided a valuation allowance equal to our net deferred tax assets due to uncertainties regarding their realization. Due to continued uncertainties regarding their realization, we continue to provide a valuation allowance equal to our net deferred tax assets at June 30, 2004.

We are paying foreign income taxes which are reflected in the Statement of Operations and which are primarily related to the cost of operating our off shore sales subsidiaries.

During the second quarter of 2003, we recorded an income tax benefit of approximately $2.6 million, related to a refund of federal income taxes of approximately $28.1 million received in the second quarter of 2003 and resulting from the carryback of 2002 net operating losses to prior profitable periods.

Goodwill and Purchased Intangible Assets:

As a result of adopting SFAS 142 “Intangible Assets” in 2002, goodwill and certain intangibles with indefinite lives are no longer being amortized. To apply SFAS 142, a company is divided into separate “reporting units,” each representing groups of products that are separately managed. For this purpose, we have one reporting unit. To determine whether or not goodwill may be impaired, a test is required comparing the book value of the “reporting unit” to its trading price. Similar tests are required in the future, at least annually, and more often where there is a change in circumstances that could result in an impairment of goodwill. If the trading price of our common stock is below the book value for a sustained period, a goodwill impairment test will be performed by comparing book value to estimated market value (trading price plus a control premium). The excess of book value over estimated market value will then be subtracted from the goodwill account with a resulting charge to operations. Subsequent unrealized recoveries in market value, if any, will not be recorded. We completed our annual goodwill impairment assessment in December 2003, upon which no impairment charge was recorded. Additional goodwill impairment tests will be performed at least annually.

The following tables present details of the Company's total purchased intangible assets (in millions):

June 30, 2004	Gross	Accumulated amortization	Net
Current technology	$ 273.6	$ (239.5)	$ 34.1
Core technology	7.3	(2.6)	4.7
Licenses	10.2	(3.6)	6.6
Non-compete agreements	14.3	(11.6)	2.7
Workforce	4.7	(1.7)	3.0
Backlog	1.4	(1.4)	—
Customer list	17.4	(17.4)	—
Patents and trademarks	26.8	(26.8)	—
Total	$ 355.7	$ (304.6)	$ 51.1

December 31, 2003	Gross	Accumulated amortization	Net
Current technology	$ 273.6	$ (214.3)	$ 59.3
Core technology	7.3	(1.9)	5.4
Licenses	10.2	(2.9)	7.3
Non-compete agreements	14.3	(9.2)	5.1
Workforce	4.7	(1.2)	3.5
Backlog	1.4	(1.4)	—
Customer list	17.4	(15.8)	1.6
Patents and trademarks	26.8	(24.3)	2.5
Total	$ 355.7	$ (271.0)	$ 84.7

The estimated future amortization expense of purchased intangible assets as of June 30, 2004 is as follows (in millions):

Fiscal Year:	Amount
2004 (remaining six months)	$ 10.3
2005	14.4
2006	10.8
2007	9.8
Later years	5.8
	$ 51.1

The estimated future amortization expense of deferred stock compensation attributable to Research and Development activities as of June 30, 2004 is approximately $1.3 million for the remainder of 2004, and $1.9 million for 2005.

New Accounting Pronouncements:

In January 2003, the Financial Accounting Standards Board ("FASB") issued Financial Standards Accounting Board Interpretation ("FIN") No. 46, "Consolidation of Variable Interest Entities," an interpretation of Accounting Research Bulletin No. 51, "Consolidated Financial Statements." FIN 46 establishes accounting guidance for consolidation of a variable interest entity. In a variable interest entity the equity investors do not have a controlling interest or their equity interest is insufficient to finance the entity's activities without receiving additional subordinated financial support from the other parties. We do not currently have any business relationship with a variable interest entity, so the adoption of FIN 46 had no impact on our consolidated financial position or results of operations.

In May 2003, the FASB issued SFAS 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." This pronouncement establishes standards for how an issuer classifies and measures in its statement of financial position certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in certain circumstances) because that financial instrument embodies an obligation of the issuer. SFAS 150 is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective for interim periods beginning after June 15, 2003. On November 7, 2003, FASB issued FASB Staff Position No. FAS 150-3 ("FSP 150-3"), "Effective Date, Disclosures, and Transition for Mandatorily Redeemable Financial Instruments of Certain Nonpublic Entities and Certain Mandatorily Redeemable Noncontrolling Interests under FASB Statement No. 150, *Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity.*" FSP 150-3 deferred certain aspects of SFAS 150. The adoption of SFAS 150 and FSP 150-3 did not have a material impact on our results of operations, financial position or cash flows.

In March 2004, the Emerging Issues Task Force finalized its consensus on EITF Issue 03-6, "Participating Securities and the Two-Class Method Under FASB Statement No. 128, Earnings Per Share" (EITF 03-6). EITF 03-6 clarifies what constitutes a participating security and requires the use of the two-class method for computing basic earnings per share when participating convertible securities exist. EITF 03-6 is effective for fiscal periods beginning after March 31, 2004. The adoption of EITF 03-6 did not have a material effect on our results of operations.

In March 2004, the Emerging Issues Task Force reached a consensus on recognition and measurement guidance previously discussed under EITF 03-01. The consensus clarifies the meaning of other-than-temporary impairment and its application to investments classified as either available-for-sale or held-to-maturity under FASB Statement No. 115, Accounting for Certain Investments in Debt and Equity Securities. The recognition and measurement guidance for which the consensus was reached in the March 2004 meeting is to be applied to other-than-temporary impairment evaluations in reporting periods beginning after June 15, 2004. As our accounting estimating methodology for other-than-temporary impairment evaluations is consistent with EITF 03-01, we do not believe adoption will have a material effect on our consolidated financial statements.

In April 2004, the Financial Accounting Standards Board issued FASB Staff Position (FSP) 129-1, "Disclosure Requirements under FASB Statement 129, Disclosure of Information about Capital Structure, Relating to Contingently Convertible Securities," further defining disclosure requirements for convertible notes, among other things. As a result of adopting FSP 129-1, we further described circumstances under which note holders may convert their notes into our common shares before note maturity.

Liquidity and Capital Resources

As of June 30, 2004, our principal source of liquidity was $310.8 million of cash and short-term investments, an increase of $33.0 million from the balance of $277.8 million at December 31, 2003. This increase was due primarily to the receipt of $18.9 million in the first half of 2004 from the sale of shares of our equity investment in UMC and, to a lesser extent, from cash flow from operations. Working capital increased to $387.7 million at June 30, 2004 from $363.6 million at December 31, 2003.

Accounts receivable days outstanding declined from approximately 46 to 43 days from December 31, 2003 to June 30, 2004 reflecting the timing of receipts within the period. Accounts receivable at June 30, 2004 increased by $2.1 million, or 8%, as compared to the balance at December 31, 2003. This increase was primarily due to the timing of billings and payments during the quarter as compared to the fourth quarter of 2003. Inventories decreased by $5.9 million, or 13%, in the first half of 2004 primarily due to increased customer shipments.

Foundry investments, advances and other assets decreased by $31.2 million from December 31, 2003 to June 30, 2004. This decrease was primarily related to reclassifying $11.4 million of our UMC shares and $8.7 million of our prepaid wafer advance payment to Other current assets in order to reflect estimated sales and usage, respectively, in the upcoming 12 months, and a mark to market adjustment related to our UMC shares of $11.4 million. Net intangible assets decreased by $33.6 million in the first half of 2004, which is attributable to amortization during the period.

Deferred income increased by $5.4 million at June 30, 2004 as compared to December 31, 2003 reflecting an increase in the amount of inventory held by distributors to accommodate higher levels of resale by distributors to their end customers.

Deferred Stock Compensation within Stockholders' Equity decreased by $2.2 million during the first two quarters of 2004 due to amortization. The $15.6 million decrease in Accumulated Other Comprehensive Income within the Stockholders' Equity during the first half of 2004 is attributable to the unrealized loss in equity securities partially offset by the realized gain on sale of UMC securities (see Note 9 to the Condensed Unaudited Consolidated Financial Statements).

At June 30, 2004, we had no senior indebtedness and our subsidiaries had approximately $2.0 million of other liabilities. Issuance costs of $3.1 million, net of debt extinguishments, relative to our zero percent convertible subordinated notes are included in Other Assets in our Condensed Consolidated Balance Sheet and are being amortized to expense over the life of the notes. Accumulated amortization amounted to $2.2 million at June 30, 2004. The estimated fair value of our convertible notes, based on quoted market prices, was approximately $158 million at the end of the June 30, 2004 quarter. At the conversion price of $12.06 per share (82.9105 shares of common stock per each $1,000 principal amount notes), 15.3 million common shares are issuable upon conversion. In general, and as further described in the related agreements, the notes may be converted into com mon stock before maturity if we request a redemption, make a distribution to common stock holders that is dilutive to note holders or if we become a party to a merger or consolidation or sale of substantially all of our assets.

We do not have any financial partnerships with unconsolidated entities, such as entities often referred to as structured finance or special purpose entities, which are often established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. Accordingly, we are not exposed to any financing, liquidity, market or credit risk that could arise if we had such relationships.

Capital expenditures were $6.8 million for the first half of 2004. We expect to spend approximately $12 million to $15 million for the fiscal year ending December 31, 2004.

At June 30, 2004, we own 71.7 million shares of UMC common stock. Restrictions by UMC apply to approximately 32% of these shares (see Note 9 to the Condensed Unaudited Consolidated Financial Statements). During the first six months of 2004, we sold 20.0 million of our UMC shares for $18.9 million in cash, resulting in a gain of $5.6 million. In the future, we may or may not choose to liquidate additional UMC shares.

In March 1997 and as subsequently amended in January 2002 and March 2004, we entered into an advance payment production agreement with Seiko Epson and Epson Electronics America, Inc. ("EEA") under which we advanced $51.3 million to Seiko Epson to finance construction of an eight-inch sub-micron semiconductor wafer manufacturing facility. Under the terms of the agreement, the advance is to be repaid with semiconductor wafers over a multi-year period. No interest income is recorded. The agreement calls for wafers to be supplied by Seiko Epson through EEA pursuant to purchase agreements with EEA. Cumulatively, $19.2 million of these payments have been repaid to us in the form of semiconductor wafers. We currently estimate that approximately $14.9 million of the outstanding advances are expected to be repaid with semiconductor wafers during the next twelve months and are thus reflected as part of Other current assets in our Consolidated Balance Sheet. We are not obligated to make additional payments under this agreement.

On March 22, 2004 we announced that Fujitsu Limited ("Fujitsu") has agreed to manufacture our next generation FPGA products on its 130-nanometer (nm) and 90-nanometer CMOS process technologies, as well as on a 130-nm technology with embedded Flash memory that we have jointly developed with Fujitsu. Additionally we announced plans which contemplate investing in stages before the end of 2005 between $100 million to $200 million in Fujitsu's new 300mm wafer fab and structuring the investment as an advance payment for production wafers and access to future process technologies. We are proceeding with negotiation of a definitive agreement with Fujitsu that would fix the amount of advance payment at $125 million.

We believe that our existing liquid resources, expected cash generated from operations and existing credit facilities combined with our ability to borrow additional funds will be adequate to meet our operating and capital requirements and obligations for the next 12 months, including the continued possible extinguishment of a portion of our convertible subordinated notes as discussed above.

We may in the future seek new or additional sources of funding. In addition, in order to secure additional wafer supply, we may from time to time consider various financial arrangements including joint ventures, equity investments, advance purchase payments, loans, or similar arrangements with independent wafer manufacturers in exchange for committed wafer capacity. To the extent that we pursue any such additional financing arrangements, additional debt or equity financing may be required. There can be no assurance that such additional financing will be available when needed or, if available, will be on favorable terms. Any future equity financing will decrease existing stockholders' equity percentage ownership and may, depending on the price at which the equity is sold, result in dilution.

FACTORS AFFECTING FUTURE RESULTS

We may be unsuccessful in defining, developing or selling new products required to maintain or expand our business.

As a semiconductor company, we operate in a dynamic environment marked by rapid product obsolescence. Our future success depends on our ability to introduce new or improved silicon and software products that meet customer needs while achieving acceptable margins. We are presently in the process of releasing next generation FPGA product families that are critical to our ability to address the FPGA segment of the programmable logic market. If we fail to introduce these, or other, new products in a timely manner or such products fail to achieve market acceptance, our operating results, would be harmed.

Fujitsu Limited has agreed to manufacture our next generation FPGA products on its 130 nanometer and 90 nanometer CMOS process technologies, as well as on a 130 nanometer technology with embedded Flash memory that we have jointly developed with Fujitsu. The success of our next generation FPGA products is dependent on our ability to successfully partner with Fujitsu, which has not previously manufactured any of our products. If for any reason we are unsuccessful in our efforts to partner with Fujitsu in connection with these next generation FPGA products, our future revenue growth would be materially adversely affected.

The introduction of new silicon and software products in a dynamic market environment presents significant business challenges. Product development commitments and expenditures must be made well in advance of product sales. The market reception of new products depends on accurate projections of long-term customer demand, which by their nature are uncertain.

Our future revenue growth is dependent on market acceptance of our new silicon and software product families and the continued market acceptance of our current products. The success of these products is dependent on a variety of specific technical factors including:

- successful product definition;
- timely and efficient completion of product design;
- timely and efficient implementation of wafer manufacturing and assembly processes;
- product performance;
- product cost; and
- the quality and reliability of the product.

If, due to these or other factors, our new silicon and software products do not achieve market acceptance, our operating results would be harmed.

Our products may not be competitive if we are unsuccessful in migrating our manufacturing processes to more advanced technologies or alternative fabrication facilities.

To develop new products and maintain the competitiveness of existing products, we need to migrate to more advanced wafer manufacturing processes that use larger wafer sizes and smaller device geometries. We also may need to use additional foundries. Because we depend upon foundries to provide their facilities and support for our process technology development, we may experience delays in the availability of advanced wafer manufacturing process technologies at existing or new wafer fabrication facilities. As a result, volume production of our advanced process technologies at the fabs of Seiko Epson, UMC, Chartered Semiconductor, Fujitsu or future foundries may not be achieved. This could harm our operating results, including gross margin.

The cyclical nature of the semiconductor industry may limit our ability to maintain or increase revenue levels and operating results during industry downturns.

The semiconductor industry is highly cyclical, to a greater extent than other less technology-driven industries. Our financial performance has periodically been negatively affected by downturns in the semiconductor industry. Factors that contribute to these industry downturns include:

- the cyclical nature of the demand for the products of semiconductor customers;
- general reductions in inventory levels by customers;
- excess production capacity;
- general decline in end-user demand; and
- accelerated declines in average selling prices.

In 2001, the semiconductor industry experienced a downturn of extreme severity and duration. While semiconductor industry conditions recently have improved, the improvement may not be significant or sustainable. Increased demand for semiconductor industry products may not proportionately increase demand for programmable logic market segment products in general, or our products in particular. Even if demand for our products increases, average sales prices for our products may not increase, and could decline. Whenever adverse semiconductor industry conditions or other similar conditions exist, there is likely to be an adverse effect on our operating results.

A downturn in the communications equipment and computing end markets could cause a reduction in demand for our products and limit our ability to maintain or increase revenue levels and operating results.

The majority of our revenue is derived from customers in the communications equipment and computing end markets. While economic conditions in general, and the communications and computer end markets in particular, are currently stable, any deterioration in these end markets or any reduction in technology capital spending could lead to a reduction in demand for our products. Whenever adverse economic or end market conditions exist, there is likely to be an adverse effect on our operating results.

We face risks related to our recent accounting restatement.

On January 22, 2004, we announced that we had discovered possible accounting inaccuracies in previously reported quarterly financial statements. An internal investigation was conducted by the Audit Committee of our Board of Directors to determine the scope and magnitude of these inaccuracies. On March 24, 2004, we announced that the Audit Committee had completed its internal accounting investigation and, as a result, we restated our financial statements for the first, second and third quarters of 2003 to correct inappropriate accounting entries and a failure to record a change in accounting estimate related to deferred income. On April 19, 2004, we filed such restated financial statements with Form 10Q/A for the affected quarters.

The restatement of these financial statements may lead to litigation claims and/or regulatory proceedings against us. The defense of any such claims or proceedings may cause the diversion of management's attention and resources, and we may be required to pay damages if any such claims or proceedings are not resolved in our favor. Any litigation or regulatory proceeding, even if resolved in our favor, could cause us to incur significant legal and other expenses. Moreover, we may be the subject of negative publicity focusing on the financial statement inaccuracies and resulting restatement. The occurrence of any of the foregoing could harm our business and reputation and cause the price of our common stock to decline.

If we are unable to effectively and efficiently implement our plan to remediate a material weakness that has been identified in our internal controls and procedures, there could be a material adverse effect on our operations or financial results.

We received notice from our independent registered public accounting firm that, in connection with the 2003 year-end audit, the auditor has identified a material weakness in our internal controls and procedures relating to separation of duties and establishment of standards for review of journal entries and related file documentation. We have implemented and are continuing to implement various initiatives intended to materially improve our internal controls and procedures to address this weakness. These initiatives address our control environment, organization and staffing, policies, procedures and documentation, and information systems. The implementation of these initiatives is one of our highest priorities. Our Board of Directors, in coordination with our Audit Committee, will continually assess the progress and sufficiency of these initiatives and make adjustm ents as necessary. However, no assurance can be given that we will be able to successfully implement our revised internal controls and procedures or that our revised controls and procedures will be effective in remedying all of the identified deficiencies in our internal controls and procedures. In addition, we may be required to hire additional employees, and may experience higher than anticipated capital expenditures and operating expenses, during the implementation of these changes and thereafter. If we are unable to implement these changes effectively or efficiently, there could be a material adverse effect on our operations or financial results. Moreover, we could be subject to additional regulatory oversight and our business and reputation could be harmed.

In addition, we may in the future experience accounting estimate changes related to our deferred income account, inventory account, income tax liability, accounts receivable collectibility, or realization of goodwill and intangible assets, any of which could adversely affect our financial results.

Our future quarterly operating results may fluctuate and therefore may fail to meet expectations.

Our quarterly operating results including gross margin have fluctuated and may continue to fluctuate. Consequently, our operating results including gross margin may fail to meet the expectations of analysts and investors. As a result of industry conditions and the following specific factors, our quarterly operating results are more likely to fluctuate and are more difficult to predict than a typical non-technology company of our size and maturity:

- general economic conditions in the countries where we sell our products;
- conditions within the end markets into which we sell our products;
- the cyclical nature of demand for our customers' products;
- excessive inventory accumulation by our end customers;
- the timing of our and our competitors' new product introductions;
- product obsolescence;
- the scheduling, rescheduling and cancellation of large orders by our customers;

- our ability to develop new process technologies and achieve volume production at the fabs of Seiko Epson, UMC, Chartered Semiconductor, Fujitsu or at other foundries;

- changes in manufacturing yields including delays in achieving target yields on New products;

- adverse movements in exchange rates, interest rates or tax rates; and

- the availability of adequate supply commitments from our wafer foundries and assembly and test subcontractors.

As a result of these factors, our past financial results are not necessarily a good predictor of our future results.

Our stock price may continue to experience large fluctuations.

In recent years, the price of our common stock has fluctuated greatly. These price fluctuations have been rapid and severe and have left investors little time to react. The price of our common stock may continue to fluctuate greatly in the future due to a variety of company specific factors, including:

- quarter-to-quarter variations in our operating results;

- shortfalls in revenue or earnings from levels expected by securities analysts; and

- announcements of technological innovations or new products by other companies.

Presently, our stock price is trading near our consolidated book value. A sustained decline in our stock price may result in a write-off of goodwill (see Note 6 of our Condensed Unaudited Consolidated Financial Statements).

Our wafer supply may be interrupted or reduced, which may result in a shortage of products available for sale.

We do not manufacture finished silicon wafers. Currently, substantially all of our silicon wafers are manufactured by Seiko Epson in Japan, UMC in Taiwan, and Chartered Semiconductor in Singapore. In March 2004 we announced that we will also be sourcing wafers on advanced process technologies from Fujitsu in Japan. If any of our current or future foundry partners significantly interrupts or reduces our wafer supply, our operating results could be harmed.

In the past, we have experienced delays in obtaining wafers and in securing supply commitments from our foundries. At present, we anticipate that our supply commitments are adequate. However, these existing supply commitments may not be sufficient for us to satisfy customer demand in future periods. Additionally, notwithstanding our supply commitments we may still have difficulty in obtaining wafer deliveries consistent with the supply commitments. We negotiate wafer prices and supply commitments from our suppliers on at least an annual basis. If any of our foundry partners were to reduce its supply commitment or increase its wafer prices, and we cannot find alternative sources of wafer supply, our operating results could be harmed.

Many other factors that could disrupt our wafer supply are beyond our control. Since worldwide manufacturing capacity for silicon wafers is limited and inelastic, we could be harmed by significant industry-wide increases in overall wafer demand or interruptions in wafer supply. Additionally, a future disruption of any of our foundry partners' foundry operations as a result of a fire, earthquake or other natural disaster could disrupt our wafer supply and could harm our operating results.

If our foundry partners experience quality or yield problems, we may face a shortage of products available for sale.

We depend on our foundries to deliver reliable silicon wafers with acceptable yields in a timely manner. As is common in our industry, we have experienced wafer yield problems and delivery delays. If our foundries are unable for a prolonged period to produce silicon wafers that meet our specifications, with acceptable yields, our operating results could be harmed.

The majority of our revenue is derived from products based on a specialized silicon wafer manufacturing process technology called E^2CMOS®. The reliable manufacture of high performance E^2CMOS semiconductor wafers is a complicated and technically demanding process requiring:

- a high degree of technical skill;
- state-of-the-art equipment;
- the absence of defects in the masks used to print circuits on a wafer;
- the elimination of minute impurities and errors in each step of the fabrication process; and
- effective cooperation between the wafer supplier and us.

As a result, our foundries may experience difficulties in achieving acceptable quality and yield levels when manufacturing our silicon wafers.

If our assembly and test contractors experience quality or yield problems, we may face a shortage of products available for sale.

We rely on contractors to assemble and test our devices with acceptable quality and yield levels. As is common in our industry, we have experienced quality and yield problems in the past. If we experience prolonged quality or yield problems in the future, our operating results could be harmed.

The majority of our revenue is derived from semiconductor devices assembled in advanced packages. The assembly of advanced packages is a complex process requiring:

- a high degree of technical skill;
- state-of-the-art equipment;
- the absence of defects in lead frames used to attach semiconductor devices to the package;
- the elimination of raw material impurities and errors in each step of the process; and
- effective cooperation between the assembly contractor and us.

As a result, our contractors may experience difficulties in achieving acceptable quality and yield levels when assembling and testing our semiconductor devices.

Deterioration of conditions in Asia may disrupt our existing supply arrangements and result in a shortage of finished products available for sale.

All of our major silicon wafer suppliers operate fabs located in Asia. Our finished silicon wafers are assembled and tested by independent contractors located in China, Malaysia, the Philippines, South Korea and Taiwan. A prolonged interruption in our supply from any of these contractors could harm our operating results.

Economic, financial, social and political conditions in Asia have historically been volatile. Financial difficulties, governmental actions or restrictions, prolonged work stoppages or any other difficulties experienced by our suppliers may disrupt our supply and could harm our operating results.

Our wafer purchases from Seiko Epson are denominated in Japanese yen. The value of the dollar with respect to the yen fluctuates. Substantial deterioration of dollar-yen exchange rates could harm our operating results.

Export sales account for a substantial portion of our revenues and may decline in the future due to economic and governmental uncertainties.

Our export sales are affected by unique risks frequently associated with foreign economies including:

- changes in local economic conditions;
- exchange rate volatility;
- governmental controls and trade restrictions;
- export license requirements and restrictions on the export of technology;
- political instability or terrorism;
- changes in tax rates, tariffs or freight rates;
- interruptions in air transportation; and
- difficulties in staffing and managing foreign sales offices.

For example, our export sales have historically been affected by regional economic crises. Significant changes in the economic climate in the foreign countries where we derive our export sales could harm our operating results.

We may not be able to successfully compete in the highly competitive semiconductor industry.

The semiconductor industry is intensely competitive and many of our direct and indirect competitors have substantially greater financial, technological, manufacturing, marketing and sales resources. If we are unable to compete successfully in this environment, our future results will be adversely affected.

The current level of competition in the programmable logic market is high and may increase in the future. We currently compete directly with companies that have licensed our technology or have developed similar products. We also compete indirectly with numerous semiconductor companies that offer products and solutions based on alternative technologies. These direct and indirect competitors are established multinational semiconductor companies as well as emerging companies. We also may experience significant competition from foreign companies in the future.

We may fail to retain or attract the specialized technical and management personnel required to successfully operate our business.

To a greater degree than most non-technology companies or larger technology companies, our future success depends on our ability to attract and retain highly qualified technical and management personnel. As a mid-sized company, we are particularly dependent on a relatively small group of key employees. Competition for skilled technical and management employees is intense within our industry. As a result, we may not be able to retain our existing key technical and management personnel. In addition, we may not be able to attract additional qualified employees in the future. If we are unable to retain existing key employees or are unable to hire new qualified employees, our operating results could be adversely affected.

If we are unable to adequately protect our intellectual property rights, our financial results and competitive position may suffer.

Our success depends in part on our proprietary technology. However, we may fail to adequately protect this technology. As a result, we may lose our competitive position or face significant expense to protect or enforce our intellectual property rights.

We intend to continue to protect our proprietary technology through patents, copyrights and trade secrets. Despite this intention, we may not be successful in achieving adequate protection. Claims allowed on any of our patents may not be sufficiently broad to protect our technology. Patents issued to us also may be challenged, invalidated or circumvented. Finally, our competitors may develop similar technology independently.

Companies in the semiconductor industry vigorously pursue their intellectual property rights. If we become involved in protracted intellectual property disputes or litigation we may utilize substantial financial and management resources, which could have an adverse effect on our operating results.

Our industry is characterized by frequent claims regarding patents and other intellectual property rights of others. We have been, and from time-to-time expect to be, notified of claims that we are infringing the intellectual property rights of others. If any third party makes a valid claim against us, we could face significant liability and could be required to make material changes to our products and processes. In response to any claims of infringement, we may seek licenses under patents that we are alleged to be infringing. However, we may not be able to obtain a license on favorable terms or without our operating results being adversely affected.

Our marketable securities, which we hold for strategic reasons, are subject to equity price risk and their value may fluctuate.

Currently we hold substantial equity in UMC, which we acquired as part of a strategic investment to obtain certain manufacturing rights. The market price and valuation of these equity shares has fluctuated widely due to market and other conditions over which we have little control. During the year ended December 31, 2001, we recorded a $152.8 million pre-tax impairment loss related to this investment. In the future, UMC shares may continue to experience significant price volatility. In the second quarter of 2002 and the first and second quarters of 2004, we sold a portion of our UMC shares, but have otherwise not attempted to reduce or eliminate this equity price risk through hedging or similar techniques and hence substantial, sustained changes in the market price of UMC shares could impact our financial results. To the extent that the market value of our UMC s hares experiences a significant decline for an extended period of time, our net income could be reduced.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There have been no material changes from what we reported in the Form 10K Annual Report for the year ended December 31, 2003.

Item 4. Controls and Procedures

This portion of our quarterly report is our disclosure of the conclusions of our management, including our Chief Executive Officer and Chief Financial Officer, regarding the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report, based on management’s evaluation of those disclosure controls and procedures. You should read this disclosure in conjunction with the certifications attached as Exhibit 31.1 and 31.2 to this quarterly report for a more complete understanding of the topics presented.

In January 2004, the Audit Committee of our Board of Directors, with the assistance of outside legal counsel and our independent auditor, commenced an internal investigation of the facts and circumstances surrounding inappropriate journal entries affecting the deferred income and accrued expense accounts. As a result of the investigation, it was determined that the unaudited consolidated condensed financial statements for each of the three month periods ended September 30, 2003, June 30, 2003 and March 31, 2003 required restatement.

After reviewing the restatement adjustments and performing an evaluation of our controls and disclosure procedures, management concurred with the Audit Committee that improvements to internal controls are needed relating to: (1) separation of duties and (2) establishment of standards for review and approval of journal entries as well as related file documentation.

We received notice from our independent registered public accounting firm that, in connection with the 2003 year-end audit, the auditor had identified a material weakness relating to our internal controls and procedures. Certain of these internal control deficiencies may also constitute deficiencies in our disclosure controls. While we are in the process of implementing a more effective system of controls and procedures, we have instituted controls, procedures and other changes to ensure that information required to be disclosed in this quarterly report on Form 10-Q has been recorded, processed, summarized and reported accurately.

The incremental steps that we have taken as a result of the aforementioned control deficiencies to ensure that all material information about our company is accurately disclosed in this report include:

1. Performed an analytical review of all journal entries processed for the 2003 year and the first half of 2004;

2. Applied additional methods and techniques to evaluate the accuracy of the deferred income account balance;

3. Instituted an additional level of approval for non-recurring journal entries;

4. Strengthened segregation of duties by adding an additional level of review for authorization and review of significant transactions;

5. Made appropriate personnel changes;

6. Separated responsibilities for preparing financial statements and maintaining accounts in the company’s general ledger;

7. Performed more detailed quarterly reconciliations and analyses of the company’s deferred revenue accounts related to its distributors;

8. Enhanced quarterly accounting review procedures by requiring an independent review of material general ledger accounts;

9. Required all non recurring journal entries to be approved by an independent reviewer; and

10. Selected and began process of implementation of improvements to information systems for distribution accounting.

Based in part on the steps listed above, our Chief Executive Officer and our Chief Financial Officer have concluded that our disclosure controls and procedures are effective to ensure that information we are required to disclose in reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported accurately within the time periods specified in Securities and Exchange Commission rules and forms.

In addition, in order to further address deficiencies described above and to further improve our internal disclosure and control procedures for future periods, we will:

1. Complete implementation of newly selected improvements to information systems for distribution accounting;

2. Perform a review of internal controls and procedures in connection with Section 404 of Sarbanes-Oxley legislative requirements; and

3. Enhance staffing to provide sufficient resources to accomplish the foregoing objectives.

These steps will constitute significant changes in internal controls. We will continue to evaluate the effectiveness of our disclosure controls and internal controls and procedures on an ongoing basis, and will take further action as appropriate.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

On August 6, 2004, we agreed in principle with the U. S. Department of Commerce to settle charges that we did not comply with Export Administration Regulations between 2000 and 2002. The settlement will result in a fine of $560,000. Provision for these costs has been made in prior years financial statements. The charges involved the exportation of controlled semiconductor devices to a Hong Kong distributor that subsequently re-exported those devices to the Peoples Republic of China (PRC), and the release of controlled semiconductor manufacturing technology to nationals of the PRC employed by Lattice in the United States, as well as the exportation of such manufacturing technology to our design center in the PRC. We voluntarily disclosed these circumstances to the Department, cooperated fully with an investigation of our export practices and procedures, and have implemented enhancements to strengthen our export control procedures.

Item 2. Changes in Securities, Use of Proceeds, and Issue Purchases of Equity Securities

In December 2000, our Board of Directors authorized management to repurchase up to five million shares of our common stock. As of June 30, 2004, we had repurchased 1,136,000 shares at an aggregate cost of $20.0 million. There were no repurchases of common stock in 2002, 2003 or the first half of 2004.

Item 5. Submission of Matters to a Vote of Security Holders

a) annual meeting of stockholders was held on May 11, 2004.

b) the following directors were elected at the meeting to serve a term of three years:

Mark O. Hatfield
Cyrus Y. Tsui

The following directors are continuing to serve their terms:

Daniel S. Hauer
Soo Boon Koh
Harry A. Merlo

c) the matters voted upon at the meeting and results of the voting with respect to those matters are as follows:

	For	Withheld
(1) Election of directors:		
Mark O. Hatfield	83,056,553	22,186,814
Cyrus Y. Tsui	85,529,738	19,713,629

	For	Against	Abstain	Not Voted
(2) Approval of an amendment to the Company’s Employee Stock Purchase Plan	86,449,548	3,052,207	431,908	23,181,000
(3) Ratification of PricewaterhouseCoopers LLP as the Company’s independent registered public accounting firm for the fiscal year ending January 1, 2005	100,603,252	4,546,088	94,027	7,871,296

The foregoing matters are described in further detail in our definitive proxy statement dated April 8, 2004 for the Annual Meeting of Stockholders held on May 11, 2004.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended.
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended.
32.1	Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

(b) Reports on Form 8-K

The following reports on Form 8-K were filed during the quarter ended June 30, 2004

On April 7, 2004, we filed a Current Report on Form 8-K stating that Larry W. Sonsini resigned from the board of directors of Lattice Semiconductor Corporation and that this resignation was not the result of a disagreement with the Company

On April 23, 2004, we filed a Current Report on Form 8-K, which included a press release of the same date, reporting our financial results for the first quarter of the year ending December 31, 2004.

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)

Date: August 10, 2004

By: /s/ Jan Johannessen

Jan Johannessen
Corporate Vice President and Chief Financial Officer

Exhibit 31.1

CERTIFICATION

I, Cyrus Y. Tsui, 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)) 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) 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

(c) 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: August 10, 2004

/s/ Cyrus Y. Tsui

Cyrus Y. Tsui
Chief Executive Officer

Exhibit 31.2

CERTIFICATION

I, Jan Johannessen, 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)) 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) 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

(c) 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: August 10, 2004

/s/Jan Johannessen

Jan Johannessen
Corporate Vice President and Chief Financial Officer

Exhibit 32.1

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

I, Cyrus Y. Tsui, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report on Form 10-Q of Lattice Semiconductor Corporation for the quarter ended June 30, 2004 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Quarterly Report fairly presents, in all material respects, the financial condition and results of operations of Lattice Semiconductor Corporation.

By: /s/ Cyrus Y. Tsui

Name: Cyrus Y. Tsui
Title: Chief Executive Officer

I, Jan Johannessen, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report on Form 10-Q of Lattice Semiconductor Corporation for the quarter ended June 30, 2004 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Quarterly Report fairly presents, in all material respects, the financial condition and results of operations of Lattice Semiconductor Corporation.

By: /s/ Jan Johannessen

Name: Jan Johannessen
Title: Corporate Vice President and
Chief Financial Officer