UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

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

For the quarterly period ended June 27, 1998

OR

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

For the transition period from _______________ to _____________

Commission file number 0 - 18032

LATTICE SEMICONDUCTOR CORPORATION
(Exact name of Registrant as specified in its charter)

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

(503) 681-0118
(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 X No

At June 27, 1998 there were 23,518,291 shares of the Registrant's common stock, $.01 par value, outstanding.

LATTICE SEMICONDUCTOR CORPORATION

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PART I. FINANCIAL INFORMATION

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

LATTICE SEMICONDUCTOR CORPORATION

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

	Three Months Ended	
	June 27, 1998	June 28, 1997
Revenue	$48,028	$61,620
Costs and expenses:		
Cost of products sold	19,109	25,028
Research and development	7,895	7,825
Selling, general and administrative	9,005	9,824
Total costs and expenses	36,009	42,677
Income from operations	12,019	18,943
Other income, net	2,523	2,524
Income before provision for income taxes	14,542	21,467
Provision for income taxes	4,726	7,299
Net income	$9,816	$14,168
Basic net income per share	$0.42	$0.62
Diluted net income per share	$0.41	$0.60
Shares used in per share calculations:		
Basic net income	23,490	22,996
Diluted net income	23,858	23,718

See accompanying Notes to Consolidated Financial Statements

LATTICE SEMICONDUCTOR CORPORATION

CONSOLIDATED BALANCE SHEET
(In thousands, except share data)

Assets	June 27, 1998	March 28, 1998
Current assets:	(unaudited)	
Cash and cash equivalents	$ 77,459	$ 60,344
Short-term investments	197,490	206,766
Accounts receivable	19,880	28,229
Inventories	22,998	22,647
Prepaid expenses and other current assets	5,430	5,572
Deferred income taxes	15,425	14,500
Total current assets	338,682	338,058
Foundry investments, advances and other assets	114,340	114,338
Property and equipment, net	40,319	36,670
	$493,341	$489,066
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable and accrued expenses	$24,953	$29,427
Deferred income on sales to distributors	18,854	20,743
Income taxes payable	2,036	4,210
Total current liabilities	45,843	54,380
Commitments and contingencies	--	--
Stockholders' equity:		
Preferred stock, $.01 par value, 10,000,000 shares authorized; none issued or outstanding	--	--
Common stock, $.01 par value, 100,000,000 shares authorized, 23,518,291 and 23,428,072 shares issued and outstanding	235	234
Paid-in capital	219,285	216,290
Retained earnings	227,978	218,162
Total stockholders' equity	447,498	434,686
	$493,341	$489,066

See accompanying Notes to Consolidated Financial Statements.

LATTICE SEMICONDUCTOR CORPORATION

CONSOLIDATED STATEMENT OF CASH FLOWS
(In thousands)
(Unaudited)

	Three Months Ended	
	June 27, 1998	June 28, 1997
Cash flows from operating activities:		
Net income	$ 9,816	$14,168
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,391	2,359
Changes in assets and liabilities:		
Accounts receivable	8,349	23
Inventories	(351)	3,130
Prepaid expenses and other assets	140	(749)
Wafer supply advance	--	3,745
Deferred income taxes	(925)	(600)
Accounts payable and accrued expenses	(4,474)	(2,874)
Deferred income	(1,889)	1,684
Income taxes payable	(2,174)	1,302
Total adjustments	1,067	8,020
Net cash provided by operating activities	10,883	22,188
Cash flows from investing activities:		
Proceeds from short-term investments, net	9,276	3,120
Capital expenditures	(6,040)	(3,607)
Net cash provided (used) by investing activities	3,236	(487)
Cash flows from financing activities:		
Net proceeds from issuance of common stock	4,230	5,455
Repurchase of common stock	(1,234)	--
Net cash provided by financing activities	2,996	5,455
Net increase in cash and cash equivalents	17,115	27,156
Beginning cash and cash equivalents	60,344	53,949
Ending cash and cash equivalents	$77,459	$81,105

See accompanying Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

(1) Basis of Presentation:

The accompanying consolidated financial statements are unaudited and have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission and in the opinion of management 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 the audited financial statements and notes thereto included in the Company's annual report on Form 10-K for the fiscal year ended March 28, 1998.

The Company reports on a 52 or 53 week fiscal year, which ends on the Saturday closest to March 31. The accompanying financial statements include the accounts of Lattice Semiconductor Corporation and its wholly-owned subsidiaries, Lattice Semiconducteurs SARL, Lattice GmbH, Lattice Semiconductor KK, Lattice Semiconductor (Shanghai) Co. Ltd., Lattice Semiconductor Asia Ltd., Lattice Semiconductor International Ltd., Lattice UK Limited and Lattice Semiconductor AB. The assets, liabilities and results of operations of the subsidiaries were not material for the periods presented. The results of the interim period are not necessarily indicative of the results for the entire year.

(2) Revenue Recognition:

Revenue from sales to OEM (original equipment manufacturer) customers is recognized upon shipment. Certain of the Company's sales are made to distributors under agreements providing price protection and right of return on unsold merchandise. Revenue and costs relating to distributor sales are deferred until the product is sold by the distributor and the related revenue and costs are then reflected in income.

(3) Net Income Per Share:

Net income per share is computed based on the weighted average number of shares of common stock and common stock equivalents assumed to be outstanding during the period (using the treasury stock method). Common stock equivalents consist of stock options and warrants to purchase common stock.

A reconciliation of the numerators and denominators of basic and diluted net income per share is presented below (in thousands, except per share amounts):

	Quarter Ended	
	June 27, 1998	June 28, 1997
Basic and diluted net income	$ 9,816	$14,168
Shares used in basic net income per share calculations	23,490	22,996
Dilutive effect of options and warrants	368	722
Shares used in diluted net income per share calculations	23,858	23,718
Basic net income per share	$0.42	$0.62
Diluted net income per share	$0.41	$0.60

(4) Inventories (in thousands):

	June 27, 1998	March 28, 1998
Work in progress	$11,654	$12,675
Finished goods	11,344	9,972
	$22,998	$22,647

(5) Changes in Stockholders' Equity (in thousands):

	Common Stock	Paid-in Capital	Retained Earnings	Total
Balances, March 28, 1998	$ 234	$ 216,290	$ 218,162	$434,686
Stock option exercises	1	4,310	--	4,311
Stock repurchases	--	(1,234)	--	(1,234)
Other comprehensive income	--	(81)	--	(81)
Net income for the three-month period	--	--	9,816	9,816
Balances, June 27, 1998	$ 235	$ 219,285	$ 227,978	$447,498

(6) New Accounting Pronouncements:

In June 1997, the FASB issued SFAS 130, "Reporting Comprehensive Income". Under SFAS 130, the Company is required to report comprehensive income and its components in its consolidated financial statements in addition to net income. For the Company, comprehensive income consists principally of net income. However, it also consists of translation of net assets held in foreign subsidiaries and other minor items. This portion of comprehensive income is included in Note 5 as "Other comprehensive income".

Also in June 1997, the FASB issued SFAS 131, "Disclosure About Segments of an Enterprise and Related Information". This pronouncement establishes standards for the way companies report information about operating segments for fiscal years beginning after December 15, 1997. It also establishes standards for related disclosures about products and services, geographic areas and major customers.

The Company has adopted this pronouncement for the year ending April 3, 1999. Required disclosures, if any, will be reflected in the Company's year end consolidated financial statements. It is anticipated that such disclosures will not have a significant impact on the consolidated financial statements.

(7) Contingencies:

Patent and other proprietary rights infringement claims are common in the semiconductor industry. The Company is exposed to certain asserted and unasserted potential claims. The Company has recently received a notification of a claimed infringement of a portfolio of manufacturing patents. While the Company has been offered a license, there can be no assurance that, with respect to this or any other such claim made against the Company, the Company could obtain a license on terms or under conditions that would not have a material adverse effect on the Company.

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

This report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. 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.

RESULTS OF OPERATIONS

REVENUE

Revenue was $48.0 million and $61.6 million for the first quarter of fiscal 1999 and 1998, respectively. The majority of the Company's revenue in the fiscal periods presented was derived from the sale of products that address the in-system programmable ("ISP-TM-") segment of the CMOS programmable logic market, and which comprised approximately 71% and 60% of total revenue for the first quarter of fiscal 1999 and 1998, respectively. Revenue in the first quarter of fiscal 1999 was negatively impacted by a decline in demand in Asia due to the continuing regional economic crisis, and a decline in demand in the computing and communications end markets.

Revenue from international sales was 48% of total revenue in the first quarter of fiscal 1999, as compared to 49% in the first quarter of fiscal 1998. The Company expects export sales to continue to represent a significant portion of revenue. See "Factors Affecting Future Results".

Overall average selling prices increased in the first quarter of fiscal 1999 as compared to the first quarter of fiscal 1998. This was due primarily to product mix changes. Although selling prices of mature products generally decline over time, this decline is at times offset by higher selling prices of new products. The Company's ability to maintain its recent trend of 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

The Company's gross margin as a percentage of revenue was 60.2% in the first quarter of fiscal 1999 as compared to 59.4% in the first quarter of fiscal 1998. This increase in gross margin percentage was primarily due to changes in product mix and reductions in the Company's manufacturing costs.

RESEARCH AND DEVELOPMENT

Research and development expense was approximately flat in the first quarter of fiscal 1999 when compared to the first quarter of fiscal 1998. As a percentage of revenue, this expense increased to approximately 16% in the first quarter of fiscal 1999 from approximately 13% in the first quarter of fiscal 1998. Spending remained focused primarily on the development of new products, including the Company's ISP product families and related software development tools. The Company believes that a continued commitment to research and development is essential in order to maintain product leadership in its existing product families and to provide innovative new product offerings, and therefore expects to continue to make significant investments in research and development in the future.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSE

Selling, general and administrative expense decreased by approximately $.8 million, or 8%, in the first quarter of fiscal 1999 when compared to the first quarter of fiscal 1998. This decrease was primarily due to lower sales commissions associated with the lower revenue levels. Selling, general and administrative expense represented approximately 19% and 16% of revenue for the first quarter of fiscal 1999 and 1998, respectively.

INTEREST AND OTHER INCOME

Interest and other income (net of expense) was approximately $2.5 million for the first quarter of fiscal 1999 and 1998, respectively.

PROVISION FOR INCOME TAXES

The Company's effective tax rate was 32.5% for the first quarter of fiscal 1999 as compared to 34.0% for the first quarter of fiscal 1998. This decrease is due primarily to a change in the proportion of tax-exempt investment income as a percentage of the Company's overall net income.

Deferred tax asset valuation allowances are recorded to offset deferred tax assets that can only be realized by earning taxable income in distant future years. Management established the valuation allowances because it cannot determine if it is more likely than not that such income will be earned.

FACTORS AFFECTING FUTURE RESULTS

The Company believes that its future operating results will be subject to quarterly variations based upon a wide variety of factors, including the cyclical nature of both the semiconductor industry and the end markets addressed by the Company's products, general economic conditions in countries where the Company's products are sold, price erosion, timing of new product introductions, product obsolescence, scheduling, rescheduling and cancellation of large orders, competitive factors, ability to develop and implement new process technologies, fluctuations in manufacturing yields, ability to achieve volume production at Seiko Epson's and UICC's new eight-inch wafer fabs, substantial adverse currency exchange rate movements, availability of manufacturing capacity and wafer supply and potential litigation expenses. Due to these and other factors, the

Company's past results are a less useful predictor of future results than is the case in more mature and stable industries. The Company has in the past increased its level of operating expenses and investment in manufacturing capacity in anticipation of future growth in revenues, primarily from increased sales of its ISP products. To the extent that this revenue growth does not materialize, the Company's operating results will be adversely affected.

The market price of the Company's common stock could be subject to significant fluctuations in response to variations in quarterly operating results, shortfalls in revenues or earnings from levels expected by securities analysts, other factors such as announcements of technological innovations or new products by the Company or by the Company's competitors, government regulations, developments in patent or other proprietary rights, and developments in the Company's relationships with parties to collaborative agreements. In addition, the stock market can experience significant price fluctuations. These fluctuations often are unrelated to the operating performance of the specific companies whose stocks are traded. Broad market fluctuations, as well as economic conditions generally and in the semiconductor industry specifically, could adversely affect the market price of the Company's common stock.

The semiconductor industry is highly cyclical and has been subject to significant downturns at various times that have been characterized by diminished product demand, production overcapacity and accelerated erosion of average selling prices. The Company's rate of growth in recent periods has been positively and negatively impacted by trends in the semiconductor industry. Any material imbalance in industry-wide production capacity relative to demand, shift in industry capacity toward products competitive with the Company's products, reduced demand or reduced growth in demand or other factors could result in a decline in the demand for or the prices of the Company's products and could have a material adverse effect on the Company's operating results.

Because of the rapid rate of technological change in the semiconductor industry, the Company's success will ultimately depend in large part on its ability to introduce new products and make improvements to its existing products on a timely basis that meet a market need at a competitive price with acceptable margins. The success of new products, including the Company's ISP product families, depends on a variety of factors, including product selection, timely and efficient completion of product design, timely and efficient implementation of manufacturing and assembly processes, product performance, quality and reliability in the field and effective sales and marketing. Because new product development commitments must be made well in advance of sales, new product decisions must anticipate both future demand and the technology that will be available to supply that demand. New and enhanced products are continually being introduced into the Company's markets by others, and these products can be expected to affect the competitive environment in the markets in which they are introduced. There is no assurance that the Company will be successful in enhancing its existing products or in selecting, developing, manufacturing, marketing and selling new products.

Future revenue growth will be largely dependent on market acceptance of the Company's new and proprietary products, including its ISP product families, and market acceptance of the Company's proprietary software development tools. There can be no assurance that the Company's product and process development efforts will be successful or that new products, including the Company's ISP products, will continue to achieve market acceptance. If the Company were unable to successfully define, develop and introduce competitive new products in a timely manner, its future operating results would be adversely affected.

The semiconductor industry is intensely competitive and is characterized by rapid technological change, sudden price fluctuations, general price erosion, rapid rates of product obsolescence, periodic shortages of materials and manufacturing capacity and variations in manufacturing costs and yields. The Company's competitive position is impacted by all of these factors and by industry competition for effective sales and distribution channels. The Company's existing and potential competitors range from established major domestic and international semiconductor companies to emerging companies. Many of the Company's competitors have substantially greater financial, technological, manufacturing, marketing and sales resources than the Company. The Company faces direct competition from companies that have developed or licensed similar technology and from licensees of the Company's products and technology. The Company also faces indirect competition from a wide variety of semiconductor companies offering products and solutions based on alternative technologies. Although to date the Company has not experienced significant competition from companies located outside the United States, such companies may become a more significant competitive factor in the future. As the Company and its current competitors seek to expand their markets, competition may increase, which could have an adverse effect on the Company's operating results. Competitors' development of new technologies that have price/performance characteristics superior to the Company's technologies could adversely effect the Company's results of operations. There can be no assurance that the Company will be able to develop and market new products successfully or that the products introduced by others will not render the Company's products or technologies non-competitive or obsolete. The Company expects that its markets will become more competitive in the future.

The future success of the Company is dependent, in part, on its ability to attract and retain highly qualified technical and management personnel, particularly highly skilled engineers involved in development of new products, both silicon and software, and process technology. Competition for such personnel is intense. There can be no assurance that the Company will be able to retain its existing key technical and management personnel or attract additional qualified employees in the future. The loss of key technical or management personnel could delay product development cycles or otherwise have a material adverse effect on the Company's business.

The Company does not manufacture finished silicon wafers; however, its products require wafers manufactured with state-of-the-art fabrication equipment and techniques. Accordingly, the Company's strategy has been to maintain relationships with large semiconductor manufacturers for the production of its wafers. Currently all of its silicon wafers are manufactured by either Seiko Epson in Japan or UMC in Taiwan. A significant interruption in supply from Seiko Epson, through S MOS, Seiko Epson's affiliated U.S. distributor, or from UMC would have a material adverse effect on the Company's business.

The Company's finished silicon wafers are assembled and packaged by independent subcontractors located in Hong Kong, Malaysia, the Philippines, South Korea, Taiwan, and the United States. Although the Company has not yet experienced significant problems or interruptions in supply from its assembly contractors, any prolonged work stoppages or other failure of these contractors to supply finished products could have a material adverse effect on the Company's operating results.

International revenues accounted for 48% and 49% of the Company's revenues for the first quarter of fiscal 1999 and 1998, respectively. The Company believes that international revenues will continue to represent a significant percentage of revenues. International revenues and operations may continue to be adversely affected by regional economic conditions such as the current Asian economic crisis, or may be affected by the imposition of governmental controls, export license requirements, restrictions on the export of technology, political instability, trade restrictions, changes in tariffs and difficulties in staffing and managing international operations.

The Company currently depends on foreign manufacturers -- Seiko Epson, a Japanese company, and UMC, a Taiwanese company -- for the manufacture of all of its finished silicon wafers, and anticipates depending on UICC, a Taiwanese company, for the manufacture of a portion of its finished silicon wafers. In addition, after wafer manufacturing is completed and each wafer is tested, products are assembled by subcontractors in Hong Kong, Malaysia, the Philippines, South Korea and Taiwan. Although the Company has yet not experienced significant problems or interruption in supply from its subcontractors, the social, economic and political situations in these countries can be volatile, and any prolonged work stoppages or other disruptions in the Company's ability to manufacture and assemble its products would have a material adverse effect on the Company's results of operations. Furthermore, economic risks, such as recession, exchange rate volatility, changes in tax laws, tariffs, or freight rates, or interruptions in air transportation, could have a material adverse effect on the Company's results of operations.

The Company depends upon wafer suppliers to produce wafers with acceptable yields and to deliver them to the Company in a timely manner. Substantially all of the Company's revenues are derived from products based on E(2)CMOS process technology. Successful implementation of the Company's proprietary E(2)CMOS process technology, UltraMOS, requires a high degree of coordination between the Company and its wafer supplier. Therefore, significant lead time is required to reach volume production at a new wafer supply location such as Seiko Epson's or UICC's new eight-inch wafer fabs. Accordingly, there can be no assurance that volume production at Seiko Epson's or UICC's new eight-inch wafer fabs will be achieved in the near term or at all. The manufacture of high performance E(2)CMOS semiconductor wafers is a complex process that requires a high degree of technical skill, state-of-the-art equipment and effective cooperation between the wafer supplier and the circuit designer to produce acceptable yields. Minute impurities, errors in any step of the fabrication process, defects in the masks used to print circuits on a wafer and other factors can cause a substantial percentage of wafers to be rejected or numerous die on each wafer to be non-functional. As is common in the semiconductor industry, the Company has from time to time experienced in the past, and expects that it will experience in the future, production yield problems and delivery delays. Any prolonged inability to obtain adequate yields or deliveries could adversely affect the Company's operating results.

The Company depends upon assembly contractors to package and test its devices with acceptable quality, yield and delivery schedules. The majority of the Company's revenues are derived from products assembled in fine-pitched packages. The assembly and testing of semiconductor devices in advanced fine-pitch packages is a complex process that requires a high degree of technical skill, state-of-the-art equipment and effective cooperation between the assembly contractor and the device manufacturer to produce acceptable quality and yields. Raw material impurities, errors in any step of the assembly process, defects in lead frames used to attach devices to the package and other factors can cause substantial problems in yield, quality and reliability of packaged products. As is common in the semiconductor industry, the Company has from time to time experienced in the past, and expects that it will experience in the future, such product problems and delivery delays. Any prolonged inability to obtain adequate yields or deliveries of quality products could adversely affect the Company's operating results.

The Company expects that, as is customary in the semiconductor business, it will in the future seek to convert its fabrication process technology to larger wafer sizes, to smaller device geometries or to new or additional suppliers in order to maintain or enhance its competitive position. Such conversions entail inherent technological risks that could adversely affect yields and delivery times and could have a material adverse impact on the Company's operating results. To a considerable extent, the Company's ability to execute its strategies will depend upon its ability to maintain and enhance its advanced process technologies. As the Company does not presently operate its own wafer fabrication or process development facility, the Company depends upon silicon wafer manufacturers to provide the facilities and support for its process development. In light of this dependency and the intensely competitive nature of the semiconductor industry, there is no assurance that either process technology development or timely product introduction can be sustained in the future.

In addition, other unanticipated changes in or disruptions of the Company's wafer supply arrangements could reduce product availability, increase cost or impair product quality and reliability. Many of the factors that could result in such changes are beyond the Company's control. For example, a disruption of operations at Seiko Epson's or UMC's manufacturing facilities as a result of a work stoppage, fire, earthquake or other natural disaster, would cause delays in shipments of the Company's products and would have a material adverse effect on the Company's operating results.

The Company's wafer purchases from Seiko Epson are denominated in Japanese yen. In the past, the dollar has experienced a substantial loss of value with respect to the yen. There is no assurance that the value of the dollar with respect to the yen will not again experience substantial deterioration. Any substantial continued deterioration of dollar-yen exchange rates could have a material adverse effect on the Company's results of operations.

Worldwide manufacturing capacity for silicon wafers is limited and inelastic. Therefore, significant increases in demand or interruptions in supply could adversely affect the Company. In the past, the Company has experienced delays in obtaining wafers and capacity commitments. Although current commitments are anticipated to be adequate through fiscal 1999, there can be no assurance that existing capacity commitments will be sufficient to permit the Company to satisfy all of its customers' demand in future periods. The Company negotiates wafer prices and certain wafer supply commitments with Seiko Epson, S MOS and UMC on an annual basis, and, in some cases, as frequently as semiannually. Moreover, wafer prices and commitments are subject to continuing review and revision by the parties. There can be no assurance that Seiko Epson, S MOS or UMC will not reduce their allocations of wafers or increase prices to the Company in future periods or that any such reduction in supply could be offset pursuant to arrangements with alternate sources of supply. If any substantial reduction of supply or substantial price increase were to occur, the Company's operating results could be materially adversely affected.

The Company's success depends in part on its proprietary technology. While the Company attempts to protect its proprietary technology through patents, copyrights and trade secrets, it believes that its success will depend more upon technological expertise, continued development of new products, and successful market penetration of its silicon and software products. There can be no assurance that the Company will be able to protect its technology or that competitors will not be able to develop similar technology independently. The Company currently has a number of United States and foreign patents and patent applications. There can be no assurance that the claims allowed on any patents held by the Company will be sufficiently broad to protect the Company's technology, or that any patents will issue from any application pending or filed by the Company. In addition, there can be no assurance that any patents issued to the Company will not be challenged, invalidated or circumvented or that the rights granted thereunder will provide competitive advantages to the Company.

The semiconductor industry is generally characterized by vigorous protection and pursuit of intellectual property rights and positions, which have on occasion resulted in protracted litigation that utilizes cash and management resources, which can have a significant adverse effect on operating results. There can be no assurance that intellectual property claims will not be made against the Company in the future or that in the event of such a claim, the Company will be able to obtain a license on terms or under conditions that would not have a material adverse impact on the Company.

The Company is currently working to address the potential impact of the Year 2000 on the processing of date-sensitive information by the Company's internal computer systems, including its electronic interfaces to distributor, customer and supplier systems. At present, the Company has completed an initial assessment of its potential exposure. Based on this assessment, the Company does not anticipate that resolution of potential internal Year 2000 issues will have a material adverse impact on the Company's operating results. However, there can be no assurance that the Company's computer systems or the systems of the Company's major distributors, suppliers, customers or financial service providers will completely address all internal Year 2000 issues in a timely manner. In the event that Year 2000 issues create significant disruption in the operations of the Company or any of the Company's major distributors, suppliers, customers or financial service providers, the Company's operating results could be materially adversely affected.

LIQUIDITY AND CAPITAL RESOURCES

As of June 27, 1998, the Company's principal source of liquidity was $274.9 million of cash and short-term investments, an increase of approximately $7.8 million from the balance of $267.1 million at March 28, 1998. This increase was primarily the result of cash generated from operations and common stock issuance from employee stock option exercises. The Company also has available an unsecured $10 million demand bank credit facility with interest due on outstanding balances at a money market rate. This facility has not been used.

Accounts receivable decreased by approximately $8.3 million, or 30%, versus amounts recorded at March 28, 1998, reflecting decreased shipments associated with lower revenue levels in the first quarter of fiscal 1999. Accounts payable and accrued expenses decreased by approximately $4.5 million, or 15%, versus the balances recorded at March 28, 1998 due to reduced spending associated with the lower revenue levels. Deferred income on sales to distributors decreased approximately $1.9 million, or 9%, associated with decreased resale activity at the distributors. Income taxes payable decreased by $2.2 million, or 52%, as compared to the balance at March 28, 1998 primarily due to the timing of tax deductions and payments.

The majority of the Company's silicon wafer purchases are currently denominated in Japanese yen. The Company maintains yen-denominated bank accounts and bills its Japanese customers in yen. The yen bank deposits utilized to hedge yen-denominated wafer purchases are accounted for as identifiable hedges against specific and firm wafer purchases.

The Company entered into a series of agreements with UMC in September 1995 pursuant to which the Company agreed to join UMC and several other companies to form a separate Taiwanese company, UICC, for the purpose of building and operating an advanced semiconductor manufacturing facility in Taiwan, Republic of China. Under the terms of the agreements, the Company invested approximately $49.7 million for an approximate 10% equity interest in UICC and the right to receive a percentage of the facility's wafer production at market prices. In October 1997, the UICC foundry was substantially destroyed by fire. UMC, the majority owner of UICC, has informed the Company that this loss has been fully covered by an insurance settlement and additional investment income and that it has begun the process of rebuilding the foundry. Further, alternative foundry capacity arrangements have been made available to the Company. Based on these assurances from UMC, management believes the Company will not be materially adversely effected by this event.

In March 1997, the Company entered into an advance payment production agreement with Seiko Epson and its affiliated U.S. distributor, S MOS, under which it agreed to advance approximately $86 million, payable over two years, to Seiko Epson to finance construction of an eight-inch sub-micron wafer manufacturing facility. Under the terms of the agreement, the advance is to be repaid with semiconductor wafers over a multi-year period. The agreement calls for wafers to be supplied by Seiko Epson through S MOS pursuant to purchase agreements with S MOS. The Company also has an option under this agreement to advance Seiko Epson an additional $60 million for additional wafer supply under similar terms. The first payment pursuant to this agreement, approximately $17.0 million, was made during fiscal 1997. During fiscal 1998, the Company made two additional payments aggregating approximately $34.2 million.

On June 12, 1998, the Company's Board of Directors authorized management to repurchase up to 1.2 million shares of the Company's common stock. As of June 27, 1998, the Company had repurchased 45,000 shares at an aggregate cost of approximately $1.2 million.

The Company currently anticipates capital expenditures of approximately $20 to $25 million for the fiscal year ending April 3, 1999.

The Company believes its existing sources of liquidity and expected cash to be generated from operations will provide adequate cash to fund the Company's anticipated cash needs for the next twelve months, including the anticipated required payments to Seiko Epson.

In an effort to secure additional wafer or assembly supply, the Company may from time to time enter consider various financial arrangements including joint ventures, equity investments, advance purchase payments, loans, or similar arrangements with independent wafer or assembly manufacturers in exchange for committed capacity. To the extent the Company pursues any such financial additional arrangements, additional debt or equity financing may be required. There can be no assurance that any such additional funding could be obtained when needed or, if available, on terms acceptable to the Company.

PART II. OTHER INFORMATION

ITEM 6. Exhibits and Reports on Form 8-K

(a) Exhibits.

11.1	Computation of Net Income Per Share (1)
27	Financial Data Schedule for Three Months Ended June 27, 1998

(b) No reports on Form 8-K were filed during the three months ended June 27, 1998.

(1) Incorporated by reference to Note 3 to the Consolidated Financial Statements in the Company's report on Form 10-Q for the three months ended June 27, 1998.

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

Date: August 11, 1998 /s/ Stephen A. Skaggs

By: Stephen A. Skaggs, Senior Vice President, Chief Financial Officer and Secretary

5
1,000

3-MOS
APR-03-1999
MAR-29-1998
JUN-27-1998
77,459
197,490
19,880
(815)
22,998
338,682
90,191
(49,872)
493,341
45,843
0
0
0
235
447,263
493,341
48,028
48,028
19,109
36,009
0
17
(2,523)
14,542
4,726
9,816
0
0
0
9,816
0.42
0.41