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 June 28, 2003

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

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

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 June 28, 2003, there were 112,502,189 shares of the Registrant's common stock, $.01 par value, outstanding.

LATTICE SEMICONDUCTOR CORPORATION

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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, 2003	June 30, 2002	June 30, 2003	June 30, 2002
Revenue	$ 58,178	$ 56,466	$ 116,489	$ 115,344
Costs and expenses:				
Cost of products sold	23,289	22,492	46,497	46,098
Research and development	21,702	21,078	43,534	42,463
Selling, general and administrative	12,614	12,220	25,097	24,078
In-process research and development	—	—	—	24,200
Amortization of intangible assets (1)	18,687	17,923	39,801	36,546
Total costs and expenses	76,292	73,713	154,929	173,385
Loss from operations	(18,114)	(17,247)	(38,440)	(58,041)
Other (expense) income, net	(1,365)	3,078	126	1,177
Loss before benefit for income taxes	(19,479)	(14,169)	(38,314)	(56,864)
Benefit for income taxes	(2,554)	(6,022)	(2,554)	(23,100)
Net loss	$ (16,925)	$ (8,147)	$ (35,760)	$ (33,764)
Basic net loss per share	$ (0.15)	$ (0.07)	$ (0.32)	$ (0.31)
Diluted net loss per share	$ (0.15)	$ (0.07)	$ (0.32)	$ (0.31)
Shares used in per share calculations:				
Basic	111,507	109,684	111,473	109,619
Diluted	111,507	109,684	111,473	109,619

(1) Includes $841 and $571 of amortization of deferred stock compensation expense for the three months ended June 30, 2003 and June 30, 2002, respectively, and $4,111 and $1,132 for the six months ended June 30, 2003 and June 30, 2002, respectively, attributable to Research and Development activities.

See Accompanying Notes to Condensed Consolidated Financial Statements

LATTICE SEMICONDUCTOR CORPORATION

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

	June 30, 2003	December 31, 2002
Assets		

Current assets:		
Cash and cash equivalents	$ 315,738	$ 169,475
Short-term investments	154,440	107,405
Accounts receivable, net	28,372	26,374
Inventories	48,283	56,241
Other current assets	11,476	35,033
Total current assets	558,309	394,528
Property and equipment, net	58,978	62,786
Foundry investments, advances and other assets	108,574	104,507
Intangible assets, net	120,304	155,953
Goodwill	223,605	223,489
	$ 1,069,770	$ 941,263
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable and accrued expenses	$ 31,238	$ 33,597
Deferred income on sales to distributors	8,763	11,983
Income taxes payable	—	142
Total current liabilities	40,001	45,722
4 3/4% Convertible notes due in 2006	172,304	208,061
Zero Coupon Convertible notes due in 2010	200,000	—
Other long-term liabilities	25,704	26,345
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, 112,502,189 and 112,358,043 shares issued and outstanding	1,125	1,124
Paid-in capital	581,519	580,987
Deferred stock compensation	(7,145)	(11,540)
Accumulated other comprehensive loss	(3,173)	(4,631)
Retained earnings	59,435	95,195
Total stockholders' equity	631,761	661,135
	$ 1,069,770	$ 941,263

See Accompanying Notes to Condensed Consolidated Financial Statements.

LATTICE SEMICONDUCTOR CORPORATION

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
(In thousands)
(unaudited)

	Six Months Ended	
	June 30, 2003	June 30, 2002
Cash flows from operating activities:		
Net loss	$ (35,760)	$ (33,764)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	50,575	46,901
Gain on sale of equity securities	—	(4,017)
Gain on extinguishment of convertible notes	(2,918)	(1,195)
Write-off of debt issuance costs	—	102
In-process research and development	—	24,200
Tax benefit of option exercises	—	792
Changes in assets and liabilities (net of effect of business combinations):		
Accounts receivable	(1,997)	(9,227)
Inventories	7,958	4,160
Other current assets	24,084	25,416
Foundry investments, advances and other assets	235	3,266
Deferred income taxes	—	1,369
Accounts payable and accrued expenses	(2,210)	2,005
Deferred income	(3,220)	(793)
Income taxes payable	(142)	(22,865)
Other liabilities	(903)	(815)

Total adjustments	**71,462**	**69,299**
Net cash provided by operating activities	**35,702**	**35,535**
Cash flows from investing activities:		
Proceeds from short-term investments	**236,019**	**185,550**
Purchase of short-term investments	**(283,053)**	**(80,696)**
Acquisition of Agere FPGA	**—**	**(254,184)**
Proceeds from sales of equity securities	**—**	**9,930**
Capital expenditures	**(5,715)**	**(10,207)**
Net cash used by investing activities	**(52,749)**	**(149,607)**
Cash flows from financing activities:		
Extinguishment of convertible debt, net	**(32,555)**	**(8,055)**
Issuance of convertible debt, net	**195,000**	**—**
Net proceeds from issuance of common stock	**865**	**3,605**
Net cash provided by (used in) financing activities	**163,310**	**(4,450)**
Net increase (decrease) in cash and cash equivalents	**146,263**	**(118,522)**
Beginning cash and cash equivalents	**169,475**	**250,203**
Ending cash and cash equivalents	**$ 315,738**	**$ 131,681**
Supplemental disclosures of cash flow information:		
Cash received for income taxes, net	**$ (28,357)**	**$ (32,923)**
Cash paid for interest	**4,549**	**6,247**
Supplemental disclosures of non-cash investing and financing activities:		
Unrealized gain (loss) on appreciation (depreciation) of foundry investments included in other comprehensive income	**$ 1,398**	**$ (6,803)**

See Accompanying Notes to Condensed Consolidated Financial Statements.

LATTICE SEMICONDUCTOR CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1 - Basis of Presentation:

The accompanying 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, 2002.

On August 26, 2002, we completed the stock for stock acquisition of Cerdelinx Technologies, Inc. ("Cerdelinx") for 2.6 million shares valued at $8.30 per share. This transaction was accounted for as an asset purchase, and accordingly, the results of operations for Cerdelinx and estimated fair value of assets acquired and liabilities assumed were included in our condensed consolidated financial statements beginning August 26, 2002. This acquisition is discussed further in Note 4.

On January 18, 2002, we completed the acquisition of the field-programmable gate array ("FPGA") business ("Agere FPGA") of Agere Systems Inc. ("Agere") for $250 million in cash. This transaction was accounted for as an asset purchase, and accordingly, the results of operations for Agere FPGA and estimated fair value of assets acquired and liabilities assumed were included in our condensed consolidated financial statements beginning January 18, 2002. This acquisition is discussed further in Note 5.

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 fiscal 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, 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 the product is sold by the distributor and related revenue and costs are then reflected in income. Revenue from software sales was not material for the periods presented.

Note 3 – Net Income Per Share:

Net income 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 income per share is presented below (in thousands, except for per share data):

	Three months ended		Six months ended	
	June 30, 2003	June 30, 2002	June 30, 2003	June 30, 2002
Net loss	$ (16,925)	$ (8,147)	$ (35,760)	$ (33,764)
Shares used in basic net loss per share calculations	111,507	109,684	111,473	109,619
Dilutive effect of stock options, warrants and other potentially dilutive securities	—	—	—	—
Shares used in diluted net loss per share	111,507	109,684	111,473	109,619
Basic net loss per share	$ (0.15)	$ (0.07)	$ (0.32)	$ (0.31)
Diluted net loss per share	$ (0.15)	$ (0.07)	$ (0.32)	$ (0.31)

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 Statement of Financial Accounting Standards (“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 of 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, 2003	June 30, 2002	June 30, 2003	June 30, 2002
Stock Options:				
Expected Volatility	57.1%	59.3%	58.1%	59.3%
Risk-free interest rate	1.9%	3.7%	2.1%	3.6%
Expected life from vesting date	1.6 years	1.8 years	0.5 years	1.8 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, 2003 and 2002, 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 $3.97 and $5.15 for the second quarter of 2003 and 2002, respectively, and $1.25 and $6.93 for the six months ended June 30, 2003 and 2002, 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 June 30, 2003	Three months ended June 30, 2002	Six months ended June 30, 2003	Six months ended June 30, 2002
Net loss, as reported	$ (16,925)	$ (8,147)	$ (35,760)	$ (33,764)
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(6,221)	(7,396)	(10,202)	(16,068)
Pro forma net loss	$ (23,147)	$ (15,543)	$ (45,962)	$ (49,832)
Net loss per share:				
Basic-as reported	$ (0.15)	$ (0.07)	$ (0.32)	$ (0.31)
Basic- pro forma	$ (0.21)	$ (0.14)	$ (0.41)	$ (0.45)
Diluted-as reported	$ (0.15)	$ (0.07)	$ (0.32)	$ (0.31)
Diluted-pro forma	$ (0.21)	$ (0.14)	$ (0.41)	$ (0.45)

Note 4 — Acquisition of Cerdelinx:

On August 26, 2002, we completed the stock for stock acquisition of Cerdelinx for 2.6 million shares valued at $8.30 per share. Cerdelinx was an early stage fabless semiconductor company focused on the design of application specific standard products targeted towards emerging high-speed communications and storage applications. Cerdelinx had a team of engineers who were developing a portfolio of low-power CMOS transceivers and backplane interfaces with embedded high-speed SERDES I/O to support 10 gigabit-per-second applications. The acquisition serves to enhance our silicon development efforts and our ability to deliver leading-edge programmable solutions within the communications and storage market segments. This acquisition principally comprises intellectual property and a work force. The core technology portion of the intellectual property is valued using a royalty savings methodology which discounts estimated royalties that would be paid on an after tax basis. The in-process technology portion of the intellectual property is valued using a discounted cash flow methodology described in detail below. Work force is valued using a replacement cost methodology which discounts costs to an after tax amount. The transaction was completed pursuant to an Agreement and Plan of Reorganization entered into on July 15, 2002, as amended on July 24, 2002, among Lattice, Cerdelinx and affiliated parties. The components of the purchase price were as follows (in millions):

Stock issued and liabilities assumed	$ 22.8
Estimated direct acquisition costs	1.1
Total	$ 23.9

In conformity with Financial Accounting Standard SFAS 142, “Goodwill and Other Intangible Assets”, the total purchase price was allocated to the estimated fair value of assets acquired and liabilities assumed. As Cerdelinx was not considered a business under SFAS 141, “Business Combinations,” no goodwill was recognized. In estimating the fair value of the assets acquired, management considered various factors, including an appraisal. The purchase price allocation is subject to further refinement and change over the four quarters subsequent to the acquisition. We are in the process of completing our integration of Cerdelinx and accordingly, the amounts recorded are based on our current estimates of these costs. The total purchase price was allocated as follows (in millions):

Core technology	$ 7.2
Deferred stock compensation	5.8
In process research and development costs	5.7
Work force	4.7
Liabilities assumed	(1.2)
Equipment	1.1
Non compete agreement	0.3
Cash	0.3
Total	$ 23.9

There were no significant exit costs incurred or accrued in connection with this transaction. Management does not expect intangible assets acquired to be deductible for income tax purposes.

Employees who joined Lattice as a result of this acquisition held Cerdelinx shares and options which were converted into 0.9 million Lattice shares and options which were either unvested or otherwise restricted from sale over terms up to four years at a grant price from $0.41 per share to $2.54 per share. The spread, which is the difference between grant price and market value of our common stock on the Closing Date, aggregating $5.8 million on these shares and options, was recorded as Paid-in capital and Deferred stock compensation and is being amortized to operations equally over the vesting (or restriction lapsing) period as part of Amortization of intangible assets.

In-Process Research and Development (“IPR&D”)

IPR&D consists of those products obtained through acquisition that are not yet proven to be technologically feasible but have been developed to a point where there is value associated with them in relation to potential future revenue. Because technological feasibility was not yet proven and no alternative future uses are believed to exist for the in-process technologies, the assigned value was expensed immediately after the closing of the acquisition.

The fair value underlying the $5.7 million assigned to acquired IPR&D from the Cerdelinx acquisition (recognized in the third quarter of 2002) was determined by identifying research projects in areas for which technological feasibility had not been established and there were no alternative future uses. The acquired IPR&D consists of low-power CMOS transceivers and backplane interfaces with embedded high-speed SERDES I/O. These products were approximately 60%

complete and are estimated to be completed in 2003 at an estimated cost of approximately $2 million. There has been no material change in the schedule or estimated cost of this project.

The fair value was determined by an income approach where fair value is the present value of projected free cash flows that will be generated by the products incorporating the acquired technologies under development, assuming they are successfully completed. The estimated net free cash flows generated by the products over six year periods were discounted at rates ranging from 15 to 17 percent in relation to the stage of completion and the technical risks associated with achieving technological feasibility. The net cash flows for such projects were based on management's estimates of revenue, expenses and asset requirements.

All of these projects have completion risks related to silicon functionality, architecture performance, process technology availability, packaging technology, continued availability of key technical personnel and product reliability. To the extent that estimated completion dates are not met, the risk of competitive product introduction is greater and revenue opportunity may be permanently lost.

The core technology included in the acquisition of Cerdelinx has an estimated weighted average useful life of approximately six years, and the work force and non-compete agreements included in the Cerdelinx acquisition have estimated useful lives of approximately four years resulting in a weighted average useful life of approximately five years.

Note 5 – Acquisition of Agere FPGA:

On January 18, 2002, we completed the acquisition of Agere FPGA for $250 million in cash. This acquisition increased our share of the PLD market, accelerated our entry into the FPGA portion of the market and provided us with additional technical employees and intellectual property. This acquisition principally comprises intellectual property, which was valued using a discounted cash flow methodology of which goodwill was a by-product. The transaction was completed pursuant to an Asset Purchase Agreement dated as of December 7, 2001 between Lattice and Agere. The components of the purchase price were as follows (in millions):

Cash	$	250.0
Estimated direct acquisition costs		6.3
Total	$	256.3

In accordance with SFAS 141, the total purchase price was allocated to the estimated fair value of assets acquired and liabilities assumed. In estimating the fair value of the assets acquired, management considered various factors, including an appraisal. The total purchase price was allocated as follows (in millions):

Excess of purchase price over net assets acquired	$	142.4
Current technology		63.4
In-process research and development		24.2
Fair value of non-compete agreement		13.8
Licensed technology		10.2
Inventory		3.5
Backlog		1.4
Property, plant and equipment		0.2
Accrued liabilities		(2.8)
Total	$	256.3

There were no significant exit costs incurred or accrued in connection with this transaction.

Employees joining us from Agere during the first quarter of 2002 were awarded approximately 1.1 million stock options which vest equally over four years at a grant price of $14.76 per share. The difference between grant price and market value of our common stock on the grant date, aggregating approximately $7.0 million, was recorded as Paid-in capital and Deferred stock compensation and is being amortized to operations ratably over the vesting period as part of Amortization of intangible assets.

In-Process Research and Development ("IPR&D")

IPR&D consists of those products obtained through acquisition that are not yet proven to be technologically feasible but have been developed to a point where there is value associated with them in relation to potential future revenue. Because technological feasibility was not yet proven and no alternative future uses are believed to exist for the in-process technologies, the assigned value was expensed immediately upon the closing date of the acquisition.

The fair value underlying the $24.2 million assigned to acquired IPR&D in the Agere FPGA acquisition was determined by identifying research projects in areas for which technological feasibility had not been established and there was no alternative future use. Projects in the IPR&D category are the ORCA 4 FPGA family, the next generation FPGA family and the FPSC field-programmable system chips. The following is a brief description of these projects. The ORCA 4 FPGA family project, increasing speed and density and enhancing yields, was approximately 85% complete and estimated to be completed by 2003 at an estimated cost of $1.5 million. This project was completed during 2002 with no material change in cost. The next generation FPGA family project, increasing speed and density while reducing die size, was approximately 50% complete and estimated to be completed by 2004 at an estimated cost of $2 million. There has been no material change in the schedule or estimated cost of this project. The future development of FPSC field-programmable system chips (field-programmable system chips which combine embedded pre-defined logic circuits

with an FPGA platform) was approximately 25% to 90% complete, and estimated to be completed by 2004 at an estimated cost of $2 million. There has been no material change in the schedule or estimated cost of this project. The IPR&D value of $24.2 million was determined by an income approach where fair value is the present value of projected free cash flows that will be generated by the products incorporating the acquired technologies under development, assuming they are successfully completed. The estimated net free cash flows generated by the products over 5-7 year periods were discounted at rates ranging from 23 to 25 percent in relation to the stage of completion and the technical risks associated with achieving technological feasibility. The net cash flows for such projects were based on management's estimates of revenue, expenses and asset requirements. Any delays or failures in the completion of these projects could impact our expected return on investment and future results. In addition, our financial condition would be adversely affected if the value of other intangible assets acquired became impaired.

All of these projects have completion risks related to silicon functionality, architecture performance, process technology availability, packaging technology, continued availability of key technical personnel, product reliability and availability of software support. To the extent that estimated completion dates are not met, the risk of competitors' product introductions is greater and revenue opportunity may be permanently lost.

The non-compete agreement from Agere and the current and licensed technology included in the acquisition of Agere FPGA have an estimated weighted average useful life of approximately 6.3 years. In accordance with SFAS 142, the excess of purchase price over net assets acquired, or Goodwill, is subject to an impairment test at least annually and is not amortized.

Pro forma results

The following pro forma results of operations information are provided for illustrative purposes only and do not purport to be indicative of the consolidated results of operations for future periods or that actually would have been realized had Lattice and Agere FPGA been a consolidated entity during the periods presented. The pro forma results combine the results of operations as if Agere FPGA had been acquired as of the beginning of the periods presented. The results include the impact of certain adjustments such as intangible asset amortization, estimated changes in interest income (expense) related to cash outlays associated with the transaction and income tax benefits related to the aforementioned adjustments. Additionally, the IPR&D charge of $24.2 million discussed above has been excluded from the periods presented due to its non-recurring nature.

(in thousands, except per share amounts-unaudited)

	Six months ended	
	June 30, 2003	June 30, 2002
Revenue	$ 116,489	$ 120,736
Net Loss	$ (35,760)	$ (18,308)
Basic net loss per share	$ (0.32)	$ (0.17)
Diluted net loss per share	$ (0.32)	$ (0.17)

Note 6 - Acquisition of Vantis:

On June 15, 1999, we paid approximately $500.1 million in cash to AMD for all of the outstanding capital stock of Vantis Corporation. The total purchase price of Vantis was $583.1 million, including certain direct acquisition costs, the accrual of certain exit costs and the assumption of certain liabilities related to the Vantis business. Of this purchase price, approximately $422.6 million was allocated to goodwill and intangible assets.

The recorded balances of goodwill and intangible assets, net of accumulated amortization, related to the Vantis acquisition approximated $77.1 million and $48.7 million, respectively, at June 30, 2003 and $77.1 million and $74.2 million, respectively, at December 31, 2002. Amortization expense related to intangible assets approximated $25.5 million for both the first six months of 2003 and the first six months of 2002.

Note 7 - Inventories (in thousands):

	June 30, 2003	Dec. 31, 2002
Work in progress	$ 35,352	$ 40,515
Finished goods	12,931	15,726
	$ 48,283	$ 56,241

Note 8 - Changes in Stockholders' Equity (in thousands):

	Common Stock	Paid-in Capital	Deferred Stock Compensation	Accumulated Other Comprehensive Loss	Retained Earnings	Total
Balances, Dec. 31, 2002	$ 1,124	$ 580,987	$ (11,540)	$ (4,631)	$ 95,195	$ 661,135
Common stock issued	1	816	—	—	—	817
Unrealized gain on foundry investments (Note 11)	—	—	—	1 ,398	—	1,398
Deferred stock compensation	—	(284)	284	—	—	—

Amortization of deferred stock compensation	—	—	4,111	—	—	4,111
Translation adjustment	—	—	—	60	—	60
Net loss for the six-month period	—	—	—	—	(35,760)	(35,760)
Balances, June 30, 2003	$ 1,125	$ 581,519	$ (7,145)	$ (3,173)	$ 59,435	$ 631,761

Total comprehensive loss for the first six-month period of 2003 was approximately $34.3 million and is substantially comprised of $35.8 million net loss from operations partially offset by $1.4 million in unrealized gain related to foundry investments.

Note 9 - New Accounting Pronouncements:

In June 2001, the FASB issued SFAS 142, which supersedes APB Opinion No. 17, "Intangible Assets." SFAS 142, among other things, establishes new standards for intangible assets acquired in a business combination, eliminates amortization of goodwill and sets forth requirements to periodically evaluate goodwill for impairment. We adopted this statement during the first quarter of 2002 and thus 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 an initial goodwill impairment assessment as of January 1, 2002 to determine if a transition impairment charge should be recognized under SFAS 142. Upon assessment, no transition impairment charge was recorded. We also completed our annual goodwill impairment assessment in December 2002, 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, 2003	**Gross**	**Accumulated amortization**	**Net**
Current technology	$ 273.6	$ (187.3)	$ 86.3
Core technology	7.3	(1.2)	6.1
Licenses	10.2	(2.1)	8.1
Non-compete agreements	14.2	(6.8)	7.4
Workforce	4.7	(.7)	4.0
Backlog	1.4	(1.4)	—
Customer list	17.4	(14.1)	3.3
Patents and trademarks	26.8	(21.7)	5.1
Total	$ 355.6	$ (235.3)	$ 120.3

December 31, 2002	**Gross**	**Accumulated amortization**	**Net**
Current technology	$ 273.6	$ (160.3)	$ 113.3
Core technology	7.3	(.5)	6.8
Licenses	10.2	(1.4)	8.8
Non-compete agreements	14.2	(4.4)	9.8
Workforce	4.7	(.3)	4.4
Backlog	1.4	(1.4)	—
Customer list	17.4	(12.3)	5.1
Patents and trademarks	26.8	(19.0)	7.8
Total	$ 355.6	$ (199.6)	$ 156.0

The estimated future amortization expense of purchased intangible assets as of June 30, 2003 is as follows (in millions):

Fiscal Year:	**Amount**
2003 (remaining six months)	$ 35.7
2004	43.8
2005	14.4
2006	10.8
2007	9.8
Later years	5.8

	$ 120.3

The estimated future amortization expense of deferred stock compensation attributable to Research and Development activities as of June 30, 2003 is approximately $1.5 million for the remainder of 2003, $3.3 million for 2004, and $2.3 million for 2005.

In May 2002, the FASB issued SFAS 145, “Rescission of FAS Nos. 4, 44, and 64, Amendment of FAS 13, and Technical Corrections.” Among other things, SFAS 145 rescinds various pronouncements regarding early extinguishment of debt and allows extraordinary accounting treatment for early extinguishment only when the provisions of Accounting Principles Board Opinion No. 30, “Reporting the Results of Operations – Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions” are met. SFAS 145 provisions regarding early extinguishment of debt are generally effective for fiscal years beginning after May 15, 2002. Management adopted this pronouncement during the second quarter of 2002. During the second through fourth quarters of 2002, we extinguished approximately $51.9 million face value of our 4¾% convertible notes for approximately $42.8 million in cash, including accrued interest. We recognized a gain of approximately $9.3 million in connection with these transactions. During the first quarter of 2003, we extinguished approximately $32.8 million of these notes for approximately $29.9 million in cash including accrued interest and recognized a gain of approximately $2.9 million. During the second

quarter of 2003, we extinguished $3.0 million of these notes for approximately the same amount in cash including accrued interest, at approximately carrying cost. As specified in SFAS 145, gains recognized were recorded in “Other (expense) income, net” in the accompanying Consolidated Statement of Operations.

In December 2002, the FASB issued SFAS 148, “Accounting for Stock-Based Compensation – Transition and Disclosure.” This statement provides alternative methods of transition for a voluntary change to the fair value method of accounting for stock-based employee compensation. In addition, it amends the disclosure requirements of SFAS 123 to require prominent disclosure in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reporting results. This statement is effective for fiscal years ending after December 15, 2002 and for the interim periods beginning after December 15, 2002. As we continue to report stock-based employee compensation costs using the intrinsic value method as defined by APB 25, adoption of the provisions of the new statement affects only our disclosure of these costs, which is presented in Note 3.

Note 10 - Legal Matters:

We are not currently a party to any material legal proceedings. We are exposed to certain asserted and unasserted potential claims. There can be no assurance 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 11 – 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 approximately $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 approximately $17.5 million. On January 3, 2000, UICC and Utek merged into UMC.

During 2002, we sold approximately 7.6 million of our UMC shares for approximately $9.9 million, resulting in a gain of $4.0 million. In the future, we may or may not choose to liquidate additional UMC shares. As of June 30, 2003, we owned approximately 88.2 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 $57.7 million and $56.3 million at June 30, 2003 and December 31, 2002, respectively, and this balance is classified as part of Foundry investments, advances and other assets. During the first quarter of 2003, we recorded a $5.0 million unrealized loss related to changes in the market value of our unrestricted UMC shares. During the second quarter of 2003, we recorded a $6.4 million unrealized gain related to the change in market value of these 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 12 – Segment and Geographic Information:

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

	Three Months Ended		Six Months Ended	
	June 30,	**June 30,**	**June 30,**	**June 30,**

	2003	2002	2003	2002
United States	$ 23,929	$ 23,995	$ 42,880	$ 48,711
Export sales:				
Europe	14,221	13,239	31,113	30,447
Asia	17,938	16,807	35,271	30,114
Other	2,090	2,425	7,225	6,072
	34,249	32,471	73,609	66,633
	$ 58,178	$ 56,466	$ 116,489	$ 115,344

Resale of product through two distributors accounted for approximately 22% and 19% of revenue in the first six months of 2003, and 24% and 18%, respectively, for the first six months of 2002. 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 13 - Stock Option Exchange Program:

On March 14, 2003, we completed 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 will receive four new options to purchase shares of common stock for every seven options submitted for cancellation. We accepted approximately 11.2 million options for exchange and currently expect to grant approximately 6.4 million new options, subject to adjustment for employee terminations since the cancellation date. The exercise price per share of the

new options will be equal to the fair market value of our common stock on the new grant date, which is expected to be September 18, 2003.

In connection with the stock option exchange 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 14- Convertible Subordinated Notes:

On June 20, 2003, we issued $200 million in Zero Coupon convertible subordinated notes due on July 1, 2010. No interest will accrue or be payable related to these notes. Holders of these notes may convert the notes into shares of our common stock at any time before the close of business on the date of their maturity, unless the notes have been previously redeemed or repurchased, if (1) the price of our common stock issuable upon conversion of a note reaches a specified threshold, (2) the notes are called for redemption, (3) specified corporate transactions occur or (4) the trading price of the notes falls below certain thresholds. The conversion price is approximately $12.06 per share, subject to adjustment in certain circumstances. On or after July 1, 2008, we have the option to redeem all or a portion of the notes that have not been previously repurchased or converted at 100% of the principal amount of the notes. On July 1, 2008, holders have the option to require us to purchase all or a portion of their notes in cash at 100% of the principal amount of the notes. The notes are subordinated in right of payment to all of our senior indebtedness, and are subordinated by operation of law to all liabilities of our subsidiaries. At June 30, 2003, we had no senior indebtedness and our subsidiaries had approximately $2.3 million of debt and other liabilities outstanding. Issuance costs relative to these convertible notes are included in “Foundry investments, advances and other assets” and aggregated approximately $5.5 million and are being amortized to expense over the lives of the notes. Accumulated amortization of these issuance costs was not significant as of June 30, 2003.

On July 21, 2003, we redeemed for cash all of our outstanding 4¾% convertible subordinated notes due in 2006 plus accrued interest. Total cash paid at redemption approximated $178.8 million, including par value of $172.3 million, accrued interest of approximately $1.8 million and a call premium of 2.71% of the outstanding notes, or approximately $4.7 million. This call premium, plus unamortized issuance costs of approximately $1.0 million as of the redemption date, will be recorded as “Other expense” in the quarter ended September 30, 2003.

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

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 Future 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.

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.

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, 2003	June 30, 2002	June 30, 2003	June 30, 2002
Revenue	100.0%	100.0%	100.0%	100.0%
Gross margin	60.0%	60.2%	60.1%	60.0%
Research and development expenses	37.3%	37.3%	37.4%	36.8%
Selling, general and administrative expenses	21.7%	21.6%	21.6%	20.9%
In-process research and development	—	—	—	21.0%
Amortization of intangible assets	32.1%	31.7%	34.2%	31.7%
Loss from operations	(31.1)%	(30.5)%	(33.0)%	(50.3)%

Revenue:

Revenue for the second quarter of 2003 increased by $1.7 million, or three percent, as compared to the second quarter of 2002, and by $1.1 million, or one percent for the first six months of 2003 when compared to the first six months of 2002. The composition of our revenue by product family for the second quarter and first six months of 2003 and 2002, respectively, was as follows:

	Three Months Ended		Six Months Ended	
	June 30, 2003	June 30, 2002	June 30, 2003	June 30, 2002
FPGA	16%	13%	15%	10%
CPLD	69%	68%	70%	70%
SPLD	15%	19%	15%	20%

We acquired Agere FPGA on January 18, 2002 (see Note 5). Prior to the acquisition, we had no revenue from the sale of FPGA products.

Beginning in 2001, the semiconductor and PLD markets experienced a significant downturn, which has continued into 2003. The slight revenue increase in the second quarter and first six months of 2003 as compared to the second quarter and first six months of 2002 was primarily due to revenue from the sale of new products. Nonetheless, overall revenue levels for all periods presented remain substantially depressed from earlier periods and reflect the continued downturn and resultant overall decrease in demand for our products. On July 21, 2003, we announced that we expected revenues for the quarter ended September 30, 2003 to be between $52 million and $55 million.

As a percentage of total revenue, U.S. sales declined to 37% for the first six months of 2003 as compared to 42% for the first six months of 2002. Export sales to Asia rose as a percentage of total revenue, from 26% in the first six months of 2002 to 30% in the first six months of 2003. Export sales to Europe were approximately flat when comparing both fiscal periods, both in absolute and percentage terms.

During the second quarter of 2003, units sold and average selling prices were both slightly higher as compared to the second quarter of 2002. The increase in the 2003 quarter was due primarily to product mix. During the first six months of 2003, total units sold increased by four percent and average selling price decreased by three percent when compared to the first six months of 2002. The decrease in average selling price was primarily due to price declines associated with the downturn in the semiconductor and PLD markets. Although selling prices of mature products generally decline over time, this decline is at times offset by higher selling prices of new products. 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 as a percentage of revenue was approximately flat for all periods presented. Reductions in overall manufacturing costs were essentially offset by changes in production volume and product mix. Reductions in overall manufacturing costs resulted primarily from on-going yield improvements, migration of products to more advanced technologies and reductions in wafer and assembly costs.

Research and development:

Research and development expenses increased by $0.6 million and $1.1 million, respectively, in the second quarter and first six months of 2003 when compared to the same calendar periods in 2002. Research and development expenses consist primarily of labor, masks, prototype wafers, third-party design automation software, assembly tooling and qualification expenses. The increase in research and development expense was primarily due to increased headcount and related spending due to our acquisition of Cerdelinx (see Note 4). 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 $0.4 million and $1.0 million, respectively, in the second quarter and first six months of 2003 when compared to the same calendar periods of 2002. These increases were primarily due to increased selling and marketing expenses related to new products.

In-Process Research and Development:

IPR&D consists of those products obtained through acquisition that are not yet proven to be technologically feasible but have been developed to a point where there is value associated with them in relation to potential future revenue. Because technological feasibility was not yet proven and no alternative future uses are believed to exist for the in-process technologies, the assigned value was expensed immediately upon the closing date of the acquisition.

Agere FPGA

The fair value underlying the $24.2 million assigned to acquired IPR&D in the Agere FPGA acquisition was determined by identifying research projects in areas for which technological feasibility had not been established and there was no alternative future use. Projects in the IPR&D category are the ORCA 4 FPGA family, the next generation FPGA family and the FPSC field-programmable system chips. The following is a brief description of these projects. The ORCA 4 FPGA family project, increasing speed and density and enhancing yields, was approximately 85% complete and estimated to be completed by 2003 at an estimated cost of $1.5 million. This project was completed during 2002 with no material change in cost. The next generation FPGA family project, increasing speed and density while reducing die size, was approximately 50% complete and estimated to be completed by 2004 at an estimated cost of $2 million. There has been no material change in the schedule or estimated cost of this project. The future development of FPSC field-programmable system chips (field-programmable system chips which combine embedded pre-defined logic circuits with an FPGA platform) was approximately 25% to 90% complete, and estimated to be completed by 2004 at an estimated cost of $2 million. There has been no material change in the schedule or estimated cost of this project. The IPR&D value of $24.2 million was determined by an income approach where fair value is the present value of projected free cash flows that will be generated by the products incorporating the acquired technologies under development, assuming they are successfully

completed. The estimated net free cash flows generated by the products over 5-7 year periods were discounted at rates ranging from 23 to 25 percent in relation to the stage of completion and the technical risks associated with achieving technological feasibility. The net cash flows for such projects were based on management’s estimates of revenue, expenses and asset requirements. Any delays or failures in the completion of these projects could impact our expected return on investment and future results. In addition, our financial condition would be adversely affected if the value of other intangible assets acquired became impaired.

All of these projects have completion risks related to silicon functionality, architecture performance, process technology availability, packaging technology, continued availability of key technical personnel, product reliability and availability of software support. To the extent that estimated completion dates are not met, the risk of competitors’ product introductions is greater and revenue opportunity may be permanently lost.

The non-compete agreement from Agere and the current and licensed technology included in the acquisition of Agere FPGA have an estimated weighted average useful life of approximately 6.3 years. In accordance with SFAS 142, the excess of purchase price over net assets acquired, or Goodwill, is subject to an impairment test at least annually and is not amortized.

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 $18.7 million and $39.8 million in the second quarter and first six months of 2003, an increase of $0.8 million and $3.3 million when compared to the same calendar periods of 2002. The most significant portion ($2.2 million) of this increase 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 (see Note 13). Nearly all of the remaining increase resulted from the amortization of intangible assets related to our acquisition of Cerdelinx.

Other (expense) income, net:

Other (expense) income, net, was $(1.4 million) and $0.1 million, respectively, in the second quarter and first six months of 2003, as compared to $3.1 million and $1.2 million, respectively, for the same calendar periods of 2002. During the second quarter of 2002, we recorded a $4.0 million gain in connection with the sale of approximately 7.6 million unrestricted UMC shares (see Note 11). There was no such transaction in the 2003 periods. Additionally during the second quarter of 2002, we recorded a $1.2 million gain in connection with the extinguishment of a portion of our 4 3/4% convertible notes. During the first quarter of 2003, we recorded a gain of approximately $2.9 million in connection with the extinguishment of an additional portion of these convertible notes. In conjunction with reducing our outstanding 4 ¾% convertible debt from $260 million at the end of the first quarter of 2002 to approximately $172 million at the end of the second quarter of 2003, quarterly interest expense was reduced from $3.1 million to $2.2 million, a reduction of approximately $0.9 million per quarter.

Additional reductions in other income resulted from a reduction in interest income on invested balances caused by lower interest rates and a decrease in invested balances.

Benefit for income taxes:

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.

The benefit for income taxes was $6.0 million and $23.1 million, respectively, in the second quarter and first six months of 2002. No income taxes were provided for in the first quarter of 2003. This is the result of the following factors:

1) We continued to experience significant losses during the first quarter of 2003 and are currently not paying any significant income taxes;

2) Federal net operating loss carrybacks and credit carrybacks 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.

FACTORS AFFECTING FUTURE RESULTS

A continuing downturn in the communications equipment and computing end markets has caused a reduction in demand for our products and limited our ability to maintain or increase revenue levels and operating results.

A significant portion of our revenue is derived from customers in the communications equipment and computing end markets. A downturn in the economy could lead to a contraction of capital spending on information technology. This in turn could lead to a reduction in the demand for communications or computing equipment and for our products.

Due to a deterioration in overall economic conditions and a significant reduction in information technology capital spending, the communications and computing end markets are currently experiencing significant and prolonged downturns. At present and in the future when these or other similar conditions exist, there is likely to be an adverse effect on our operating results.

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

Beginning in 2001, the semiconductor industry experienced a significant downturn. At present and in the future when these or other similar conditions exist, there is likely to be an adverse effect on our operating results.

We may experience unexpected difficulties integrating the field programmable gate array, or FPGA, business which we recently purchased from Agere.

On January 18, 2002, we acquired the FPGA business of Agere Systems and are currently completing the integration of this business with our operations. If our integration is unsuccessful, more difficult or more time consuming than originally planned, we may incur unexpected disruptions to our ongoing business. These disruptions could harm our operating results. Further, the following specific factors may adversely affect our ability to integrate the FPGA business of Agere:

- we may experience unexpected losses of key employees or customers;
- we may not achieve expected levels of revenue growth;
- we may not be able to coordinate our new product and process development in a way which permits us to bring future new products to the market in a timely manner; and
- we may discover unexpected liabilities.

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. If we fail to introduce these new products in a timely manner or these products fail to achieve market acceptance, our operating results would be harmed.

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 or future foundries may not be achieved. This could harm our operating results.

In late 2001, UMC informed us that as part of an overall capacity rationalization they were planning to close certain of their fabrication facilities. We were developing an advanced wafer manufacturing process at one of the UMC fabs that has been closed. With UMC's support, we have transferred this process to another UMC fab. However, as a result, our new product introduction schedules were delayed. This could harm our operating results.

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, 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 shares experiences a significant decline for an extended period of time, our net income could be reduced.

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

Our quarterly operating results have fluctuated and may continue to fluctuate. Consequently, our operating results 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 or at other foundries;
- changes in manufacturing yields;
- 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 contractors.

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 9).

Our wafer supply may be interrupted or reduced, which may result in a shortage of finished 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. If Seiko Epson, through its U.S. affiliate, Epson Electronics America, UMC or Chartered 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 Seiko Epson, Epson Electronics America, UMC or Chartered Semiconductor 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 Seiko Epson’s, UMC’s or Chartered Semiconductor’s 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 finished 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 us and the wafer supplier.

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 finished 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 us and the assembly contractor.

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 three 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.

New Accounting Pronouncements

In June 2001, the FASB issued SFAS 142, which supersedes APB Opinion No. 17, “Intangible Assets.” SFAS 142, among other things, establishes new standards for intangible assets acquired in a business combination, eliminates amortization of goodwill and sets forth requirements to periodically evaluate goodwill for impairment. We adopted this statement during the first quarter of 2002 and thus 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 an initial goodwill impairment assessment as of January 1, 2002 to determine if a transition impairment charge should be recognized under SFAS 142. Upon assessment, no transition 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, 2003	**Gross**	**Accumulated amortization**	**Net**
Current technology	$ 273.6	$ (187.3)	$ 86.3
Core technology	7.3	(1.2)	6.1
Licenses	10.2	(2.1)	8.1
Non-compete agreements	14.2	(6.8)	7.4
Workforce	4.7	(.7)	4.0
Backlog	1.4	(1.4)	—
Customer list	17.4	(14.1)	3.3
Patents and trademarks	26.8	(21.7)	5.1
Total	$ 355.6	$ (235.3)	$ 120.3

December 31, 2002	**Gross**	**Accumulated amortization**	**Net**
Current technology	$ 273.6	$ (160.3)	$ 113.3
Core technology	7.3	(.5)	6.8
Licenses	10.2	(1.4)	8.8
Non-compete agreements	14.2	(4.4)	9.8
Workforce	4.7	(.3)	4.4
Backlog	1.4	(1.4)	—
Customer list	17.4	(12.3)	5.1
Patents and trademarks	26.8	(19.0)	7.8
Total	$ 355.6	$ (199.6)	$ 156.0

The estimated future amortization expense of purchased intangible assets as of June 30, 2003 is as follows (in millions):

Fiscal Year:	**Amount**
2003 (remaining six months)	$ 35.7
2004	43.8
2005	14.4
2006	10.8
2007	9.8
Later years	5.8

	$ 120.3

The estimated future amortization expense of deferred stock compensation attributable to Research and Development activities as of June 30, 2003 is approximately $1.5 million for the remainder of 2003, $3.3 million for 2004, and $2.3 million for 2005.

In May 2002, the FASB issued SFAS 145, "Rescission of FAS Nos. 4, 44, and 64, Amendment of FAS 13, and Technical Corrections." Among other things, SFAS 145 rescinds various pronouncements regarding early extinguishment of debt and allows extraordinary accounting treatment for early extinguishment only when the provisions of Accounting Principles Board Opinion No. 30, "Reporting the Results of Operations – Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions" are met. SFAS 145 provisions regarding early extinguishment of debt are generally effective for fiscal years beginning after May 15, 2002. Management adopted this pronouncement during the second quarter of 2002. During the second through fourth quarters of 2002, we extinguished approximately $51.9 million face value of our 4¾% convertible notes for approximately $42.8 million in cash, including accrued interest. We recognized a gain of approximately $9.3 million in connection with these transactions. During the first quarter of 2003, we extinguished approximately $32.8 million of these notes for approximately $29.9 million in cash including accrued interest and recognized a gain of approximately $2.9 million. During the second

quarter of 2003, we extinguished $3.0 million of these notes for approximately the same amount of cash including accrued interest, at approximately carrying cost. As specified in SFAS 145, gains recognized were recorded in "Other (expense) income, net" in the accompanying Consolidated Statement of Operations.

In December 2002, the FASB issued SFAS 148, "Accounting for Stock-Based Compensation – Transition and Disclosure." This statement provides alternative methods of transition for a voluntary change to the fair value method of accounting for stock-based employee compensation. In addition, it amends the disclosure requirements of SFAS 123 to require prominent disclosure in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reporting results. This statement is effective for fiscal years ending after December 15, 2002 and for the interim periods beginning after December 15, 2002. As we continue to report stock-based employee compensation costs using the intrinsic value method as defined by APB 25, adoption of the provisions of the new statement affects only our disclosure of these costs, which is presented in Note 3.

Liquidity and Capital Resources

As of June 30, 2003, our principal source of liquidity was $470.2 million of cash and short-term investments an increase of $193.3 million from the balance of $276.9 million at December 31, 2002. This increase was due primarily to the receipt of $195.0 million in the second quarter of 2003 in conjunction with the issuance of $200 million of our Zero Coupon Convertible Subordinated Notes (see Note 14). This, plus cash generated from operations, more than offset $29.9 million and $3.0 million in cash used during the first and second quarters of 2003, respectively, to extinguish a portion of our existing 4¾% convertible debt. Working capital increased to $518.3 million at June 30, 2003 from $348.8 million at December 31, 2002. This increase was also primarily due to the issuance of new convertible notes discussed above.

Accounts receivable at June 30, 2003 increased by $2.0 million, or eight percent, as compared to the balance at December 31, 2002. This increase was primarily due to the timing of billings and payments during the quarter as compared to the fourth quarter of 2002. Inventories decreased by $8.0 million, or 14%, as compared to the balance at December 31, 2002. This decrease was primarily due to reduced starts and receipts of wafers in response to continued lower revenue levels. Other current assets decreased by $23.6 million, or 67%, as compared to the balance at December 31, 2002. This was primarily due to the receipt of federal income tax refunds approximating $28.1 million related to the carryback of 2002 net operating losses to prior profitable periods. Foundry investments, advances and other assets increased by $4.1 million, or four percent. This increase was primarily due to approximately $5.5 million in fees and estimated issuance costs recorded in connection with the issuance of our Zero Coupon Convertible Subordinated Notes. Intangible assets, net, decreased by $35.6 million, or 23% as compared to the balance at December 31, 2002, substantially due to amortization during the first six months of 2003. Deferred income on sales to distributors decreased by $3.2 million, or 27%, as compared to the balance at December 31, 2002. This decrease was primarily due to lower shipments and billings to the distributors, resulting in lower inventories at the distributors.

On June 20, 2003, we issued $200 million in Zero Coupon convertible subordinated notes due on July 1, 2010. No interest will accrue or be payable related to these notes. Holders of these notes may

convert the notes into shares of our common stock at any time before the close of business on the date of their maturity, unless the notes have been previously redeemed or repurchased, if (1) the price of our common stock issuable upon conversion of a note reaches a specified threshold, (2) the notes are called for redemption, (3) specified corporate transactions occur or (4) the trading price of the notes falls below certain thresholds. The conversion price is approximately $12.06 per share, subject to adjustment in certain circumstances. On or after July 1, 2008, we have the option to redeem all or a portion of the notes that have not been previously repurchased or converted at 100% of the principal amount of the notes. On July 1, 2008, holders have the option to require us to purchase all or a portion of their notes in cash at 100% of the principal amount of the notes. The notes are subordinated in right of payment to all of our senior indebtedness, and are subordinated by operation of law to all liabilities of our subsidiaries. At June 30, 2003, we had no senior indebtedness and our subsidiaries had approximately $2.3 million of debt and other liabilities outstanding. Issuance costs relative to these convertible notes are included in "Foundry investments, advances and other assets" and aggregated approximately $5.5 million and are being amortized to expense over the lives of the notes. Accumulated amortization of these issuance costs was not significant as of June 30, 2003.

On July 21, 2003, we redeemed for cash all of our outstanding 4¾% convertible subordinated notes due in 2006 plus accrued interest. Total cash paid at redemption approximated $178.8 million, including par value of $172.3 million, accrued interest of approximately $1.8 million and a call premium of 2.71% of the outstanding notes, or approximately $4.7 million. This call premium, plus unamortized issuance costs of approximately $1.0 million as of the redemption date, will be recorded as "Other expense" in the quarter ended September 30, 2003. As of June 30, 2003, the balance of these convertible notes decreased by $35.8 million as compared to the balance at December 31, 2002 as we extinguished a portion of this convertible debt as discussed above.

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 approximately $5.7 million for the first six months of 2003. We expect to spend approximately $10 million to $15 million for the fiscal year ending December 31, 2003.

We currently own approximately 88.2 million shares of UMC common stock. Restrictions by UMC and the Taiwan government apply to approximately 23.3 million of these shares (see Note 11). During 2002, we sold approximately 7.6 million of our UMC shares for approximately $9.9 million in cash, resulting in a gain of $4.0 million. In the future, we may or may not choose to liquidate additional UMC shares.

In December 2000, our Board of Directors authorized management to repurchase up to five million shares of our common stock. As of December 31, 2002, we had repurchased 1,136,000 shares (596,000 in 2001) at an aggregate cost of approximately $20.0 million ($10.6 million in 2001). There were no repurchases of common stock in 2002 or the first six months of 2003.

In March 1997 and as subsequently amended in January 2002, we entered into an advance payment production agreement with Seiko Epson and Epson Electronics America, Inc. ("EEA") under which we agreed to advance up to approximately $69 million, payable upon completion of specific milestones, 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. Payments of approximately $51.3 million have been made under this agreement. Cumulatively, approximately $14.1 million of these payments have been repaid to us in the form of semiconductor wafers. Approximately $3.5 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 Prepaid expenses and Other current assets in our Consolidated Balance Sheet. We do not anticipate making additional payments under this agreement.

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.

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.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

As of June 30, 2003 and December 31, 2002 our investment portfolio consisted of fixed income securities of $468.4 million and $274.4 million, respectively. As with all fixed income instruments, these securities are subject to interest rate risk and will decline in value if market interest rates increase. If market rates were to increase immediately and uniformly by 10% from levels as of June 30, 2003 and December 31, 2002, the decline in the fair value of our portfolio would not be material. Further, we have the ability to hold our fixed income investments until maturity and, therefore, we would not expect to recognize such an adverse impact in our income or cash flows.

We have international subsidiary and branch operations. Additionally, a portion of our silicon wafer purchases are denominated in Japanese yen. We therefore are subject to foreign currency rate exposure. To mitigate rate exposure with respect to our yen-denominated wafer purchases, we maintain a yen-denominated bank account and bill our Japanese customers in yen. If the foreign currency rates were to fluctuate by 10% from rates at either June 30, 2003 or December 31, 2002, the effect on our consolidated financial statements would not be material. However, there can be no assurance that there will not be a material impact in the future.

We are exposed to equity price risk due to our equity investment in UMC (see Note 11). Neither a 10% increase nor a 10% decrease in equity price related to this investment would have a material effect on our consolidated financial statements. We have not attempted to reduce or eliminate this equity price risk through hedging or similar techniques. As a result, sustained changes in the market price of UMC shares could impact our financial results. To the extent that the market value of our UMC shares experiences further deterioration for an extended period of time, our net income could be reduced.

Item 4. Controls and Procedures

(a) *Evaluation of disclosure controls and procedures*. Within the 90-day period prior to the date of this report, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-14(c) and 15d – 14(c) of the Securities Exchange Act of 1934 (the "Exchange Act")). Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective in ensuring that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms.

(b) *Changes in internal controls*. There have been no significant changes in our internal controls or in other factors which could significantly affect our internal controls subsequent to the date we carried out our evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

PART II. OTHER INFORMATION

ITEM 5. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

a) The annual meeting of stockholders was held on May 6, 2003.
b) The following directors were elected at the meeting to serve a term of three years:

Daniel S. Hauer
Soo Boon Koh
Steven A. Laub

The following directors are continuing to serve their terms:

Mark O. Hatfield
Harry A. Merlo
Larry W. Sonsini
Cyrus Y. Tsui

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 director:		
Daniel S. Hauer	98,397,829	3,946,841
Soo Boon Koh	100,922,104	1,422,566
Steven A. Laub	101,665,976	678,694

	For	Against	Abstain	Not Voted
(2) Ratification of PricewaterhouseCoopers LLP as the Company's independent public accountant for the fiscal year ending December 31, 2003	99,014,100	3,303,682	26,888	10,131,538

The foregoing matters are described in further detail in our definitive proxy statement dated April 3, 2003 for the Annual Meeting of Stockholders held on May 6, 2003.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

99.1 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.

99.2 Form of Indemnification Agreement by and between Lattice Semiconductor Corporation and certain Directors, Officers, Employees and Agents.

(b) Reports on Form 8-K

On April 22, 2003, we filed a Current Report on Form 8-K comprising our Press Release of the same date reporting our financial results for the quarter ended March 31, 2003.

On June 16, 2003, we filed a Current Report on Form 8-K announcing our intention to offer approximately $200 million aggregate principal amount (excluding any option for the initial purchaser to the offering to purchase additional notes) of Zero Coupon Convertible Subordinated Notes due July 1, 2010.

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 8, 2003

By: /s/ Stephen A. Skaggs

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

CERTIFICATIONS

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 quarterly 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 quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly 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 quarterly report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

a) designed such disclosure controls and procedures 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 quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officer and I have indicated in this quarterly report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: August 8, 2003

/s/ Cyrus Y. Tsui
Cyrus Y. Tsui
Chief Executive Officer

I, Stephen A. Skaggs, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Lattice Semiconductor Corporation;

2. Based on my knowledge, this quarterly 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 quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly 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 quarterly report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

a) designed such disclosure controls and procedures 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 quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant’s auditors and the audit committee of registrant’s board of directors (or persons performing the equivalent functions):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant’s ability to record, process, summarize and report financial data and have identified for the registrant’s auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal controls; and

6. The registrant’s other certifying officer and I have indicated in this quarterly report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: August 8, 2003

/s/ Stephen A. Skaggs

Stephen A. Skaggs
Chief Financial Officer

Exhibit 99.1

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 of Lattice Semiconductor Corporation on Form 10-Q for the quarter ended June 30, 2003 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, Stephen A. Skaggs, 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 of Lattice Semiconductor Corporation on Form 10-Q for the quarter ended June 30, 2003 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/ Stephen A. Skaggs

Name: Stephen A. Skaggs
Title: Chief Financial Officer

EXHIBIT 99.2

LATTICE SEMICONDUCTOR CORPORATION

INDEMNIFICATION AGREEMENT

This Indemnification Agreement ("**Agreement**") is made as of May 6, 2003 by and between Lattice Semiconductor Corporation, a Delaware corporation (the "**Company**"), and ("**Indemnitee**").

Recitals

A. The Company desires to attract and retain qualified directors, officers, employees and other agents, and to provide them with protection against liability and expenses incurred while acting in that capacity;

B. The Certificate of Incorporation and Bylaws of the Company contain provisions for indemnifying directors and officers of the Company, and the Bylaws and Delaware law contemplate that separate contracts may be entered into between the Company and its directors and officers, employees and other agents with respect to their indemnification by the Company, which contracts may provide greater protection than is afforded by the Certificate of Incorporation and Bylaws;

C. The Company understands that Indemnitee has reservations about serving or continuing to serve the Company without adequate protection against personal liability arising from such service, and that it is also of critical importance to Indemnitee that adequate provision be made for advancing costs and expenses of legal defense; and

D. The Board of Directors has approved as being in the best interests of the Company indemnity contracts substantially in the form of this Agreement for directors and officers of the Company and its subsidiaries and for certain other employees and agents of the Company designated by the Board of Directors.

NOW, THEREFORE, in order to induce Indemnitee to serve or to continue to serve as a director, officer, employee or agent of the Company, and in consideration of Indemnitee's service to the Company, the parties agree as follows:

1. Contractual Indemnity. In addition to the indemnification provisions of the Certificate of Incorporation and Bylaws of the Company, the Company hereby agrees, subject to the limitations of Sections 2 and 5 hereof:

(a) To indemnify, defend and hold Indemnitee harmless to the greatest extent possible under applicable law from and against any and all judgments, fines, penalties, amounts paid in settlement and any other amounts reasonably incurred or suffered by Indemnitee (including attorneys' fees) if Indemnitee acted in good faith and in a manner Indemnitee reasonably believed to be in or not opposed to the best interests of the Company, and, with respect to any criminal action or proceeding, had no reasonable cause to believe Indemnitee's conduct was unlawful, in connection with any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative, including an action by or in the right of the Company, to which Indemnitee is, was or at any time becomes a party, or is threatened to be made a

party, by reason of the fact that Indemnitee is, was or at any time becomes a director, officer, employee or agent of the Company or is or was serving or at any time serves at the request of the Company as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise (collectively referred to hereafter as a "Claim"), whether or not arising prior to the date of this Agreement.

(b) To pay any and all expenses reasonably incurred by Indemnitee in defending any Claim or Claims (including reasonable attorneys' fees and expenses and other reasonable costs of investigation and defense), as the same are incurred and in advance of a final judicial determination (as to which all rights of appeal therefrom have been exhausted or lapsed) (the "Final Judicial Determination") of any such Claim or Claims, upon receipt of a written undertaking by or on behalf of Indemnitee (which shall be unsecured and shall not bear interest) to reimburse such amounts if a Final Judicial Determination determines that Indemnitee (i) is not entitled to be indemnified by the Company under this Agreement, and (ii) is not entitled to be indemnified by the Company under the Certificate of Incorporation or the Bylaws of the Company.

(c) The termination of any action or proceeding by judgment, order, settlement, conviction, or upon a plea of nolo contendere or its equivalent, shall not, of itself, create a presumption that (i) Indemnitee did not act in good faith and in a manner which Indemnitee reasonably believed to be in the best interests of the Company, or (ii) with respect to any criminal action or proceeding, Indemnitee had reasonable cause to believe that Indemnitee's conduct was unlawful.

2. Limitations on Contractual Indemnity. Indemnitee shall not be entitled to indemnification or advancement of expenses under Section 1:

(a) if a court of competent jurisdiction, by a Final Judicial Determination, shall determine that (i) the Claim or Claims in respect of which indemnity is sought arise from Indemnitee's fraudulent, dishonest or willful misconduct, or (ii) such indemnity is not permitted under applicable law; or

(b) on account of any suit in which judgment is rendered for an accounting of profits made from the purchase or sale by Indemnitee of securities of the Company in violation of the provisions of Section 16(b) of the Securities Exchange Act of 1934 and amendments thereto or similar provisions of any federal, state or local statutory law; or

(c) for any acts or omissions or transactions from which Indemnitee may not be relieved of liability under the Delaware General Corporation Law; or

(d) with respect to proceedings or claims initiated or brought voluntarily by Indemnitee and not by way of defense, except (i) with respect to proceedings brought in good faith to establish or enforce a right to indemnification under this Agreement or any other statute or law, or (ii) at the Company's discretion, in specific cases if the Board of Directors of the Company has approved the initiation or bringing of such suit; or

(e) for expenses or liabilities of any type whatsoever (including, but not limited to, judgments, fines, ERISA excise taxes or penalties, and amounts paid in

settlement) which have been paid directly to Indemnitee by an insurance carrier under a policy of liability insurance maintained by the Company; or

(f) for any expenses incurred by the Indemnitee with respect to any proceeding instituted by Indemnitee to enforce or interpret this Agreement, if a court of competent jurisdiction determines that each of the material assertions made by the Indemnitee in such proceeding was not made in good faith or was frivolous.

Notwithstanding any limitations set forth in this Section 2, regarding the Company's obligation to provide indemnification, Indemnitee shall be entitled under Section 4 to receive expense advances hereunder with respect to any such Claim unless and until a court having jurisdiction over the Claim shall have made a Final Judicial Determination that Indemnitee has engaged in acts, omissions or transactions for which Indemnitee is prohibited from receiving indemnification under this Section 2.

3. Continuation of Contractual Indemnity. Subject to the termination provisions of Section 11, all agreements and obligations of the Company contained herein shall continue for so long as Indemnitee shall be subject to any possible action, suit, proceeding or other assertion of a Claim or Claims.

4. Expenses; Indemnification Procedure. The Company shall advance all expenses incurred by Indemnitee in connection with the investigation, defense, settlement or appeal of any civil or criminal action or proceeding referenced in Section 1 hereof (but not amounts actually paid in settlement of any such action or proceeding). Indemnitee hereby undertakes to repay such amounts advanced if, and to the extent that, a Final Judicial Determination determines that Indemnitee is not entitled to be indemnified by the Company as authorized hereby. The advances to be made hereunder shall be paid by the Company to Indemnitee within twenty (20) days following delivery of a written request therefor by Indemnitee to the Company.

5. Notification and Defense of Claim. If any action, suit, proceeding or other Claim is brought against Indemnitee in respect of which indemnity may be sought under this Agreement:

(a) Indemnitee will promptly notify the Company in writing of the commencement thereof, and the Company and any other indemnifying party similarly notified will be entitled to participate therein at its own expense or to assume the defense thereof and to employ counsel reasonably satisfactory to Indemnitee provided however, that failure to provide such notice in accordance with this Section 2(b) shall not affect Indemnitee's rights to receive any expenses or expense advances hereunder unless and except to the extent that the Company did not otherwise learn of such Claim and such failure of Indemnitee to provide such notice results in the forfeiture by the Company of substantial rights and defenses. Notice to the Company shall be directed to the Chief Executive Officer of the Company at the address shown on the signature page of this Agreement (or such other address as the Company shall designate in writing to Indemnitee). Notice shall be deemed received three (3) business days after the date postmarked if sent by domestic certified or registered mail, properly addressed; otherwise

notice shall be deemed received when such notice shall actually be received by the Company. If the Company does not assume the defense of a Claim or the Indemnitee reasonably determines that there may be a conflict between the positions of the Company in conducting the defense or a Claim, the counsel to Indemnitee shall be entitled to conduct the defense as reasonably determined by such counsel to be necessary or desirable to protect the interests of the Indemnitee and the Company shall not have the right to assume the defense of such Claim and the reasonable fees and expenses of such counsel to the Indemnitee shall be borne by the Company upon delivery to the Company of the undertaking referred to in subparagraph (b) of Section 1. However, in no event will the Company be obligated to pay the fees or expenses of more than one firm of attorneys representing Indemnitee and any other agents of the Company in connection with any one Claim or separate but substantially similar or related Claims in the same jurisdiction arising out of the same general allegations or circumstances, unless Indemnitee reasonably determines that representation of Indemnitee and other agents of the Company by the same firm of attorneys would present a conflict of interest that materially prejudices the interests of Indemnitee.

(b) The Company shall not be liable to indemnify Indemnitee for any amounts paid in settlement of any Claim effected without the Company's written consent, and the Company shall not settle any Claim in a manner which would impose any penalty or limitation on Indemnitee or require the admission of guilt or responsibility without Indemnitee's written consent; provided, however, that neither the Company nor Indemnitee will unreasonably withhold its consent to any proposed settlement and, provided further, that if a claim is settled by the Indemnitee with the Company's written consent, or if there is a Final Judicial Determination for the plaintiff in connection with the Claim by a court of competent jurisdiction, the Company shall indemnify and hold harmless Indemnitee from and against any and all losses, costs, expenses and liabilities incurred by reason of such settlement or judgment.

(c) Indemnitee shall give the Company such information in the possession of, or reasonably obtainable by, Indemnitee, and cooperation as it may reasonably require and as shall be within Indemnitee's power and control.

(d) Any indemnification provided for in Section 1 shall be made no later than forty-five (45) days after receipt of the written request of Indemnitee. If a Claim under this Agreement, under any statute, or under any provision of the Company's Certificate of Incorporation or Bylaws providing for indemnification, is not paid in full by the Company within forty-five (45) days after a written request for payment thereof has first been received by the Company, Indemnitee may, but need not, at any time thereafter bring an action against the Company to recover the unpaid amount of the claim and, subject to Section 13 of this Agreement, Indemnitee shall also be entitled to be reimbursed for the expenses (including attorneys' fees) of bringing such action. It shall be a defense to any such action (other than an action brought to enforce a claim for expenses incurred in connection with any action or proceeding in advance of its final disposition) that Indemnitee has not met the standards of conduct which make it permissible under applicable law for the Company to indemnify Indemnitee for the amount claimed but the burden of proving such defense shall be on the Company, and

Indemnitee shall be entitled to receive interim payments of expenses pursuant to Subsection 4 unless and until there is a Final Judicial Determination for such defense. It is the parties' intention that if the Company contests Indemnitee's right to indemnification, the question of Indemnitee's right to indemnification shall be for the court to decide, and neither the failure of the Company (including its Board of Directors, any committee or subgroup of the Board of Directors, independent legal counsel, or its stockholders) to have made a determination that indemnification of Indemnitee is proper in the circumstances because Indemnitee has met the applicable standard of conduct required by applicable law, nor an actual determination by the Company (including its Board of Directors, any committee or subgroup of the Board of Directors, independent legal counsel, or its stockholders) that Indemnitee has not met such applicable standard of conduct, shall create a presumption that Indemnitee has or has not met the applicable standard of conduct.

(e) If, at the time of the receipt of a notice of a Claim, the Company has director and officer liability insurance in effect, the Company shall give prompt notice of the commencement of such proceeding to the insurers in accordance with the procedures set forth in the respective policies. The Company shall thereafter take all necessary or desirable action to cause such insurers to pay, on behalf of the Indemnitee, all amounts payable as a result of such proceeding in accordance with the terms of such policies, provided however, that nothing contained in this Section 5(e) shall excuse the Company from its obligations to pay expenses or expense advances to Indemnitee as provided herein.

6. Scope. Notwithstanding any other provision of this Agreement, the Company hereby agrees to indemnify the Indemnitee against any Claim to the fullest extent permitted by law, notwithstanding that such indemnification is not specifically authorized by the other provisions of this Agreement, the Company's Certificate of Incorporation, the Company's Bylaws or by statute. In the event of any change, after the date of this Agreement, in any applicable law, statute or rule which expands the right of a Delaware corporation to indemnify a member of its board of directors, an officer or other corporate agent, such changes shall be, ipso facto, within the purview of Indemnitee's rights and Company's obligations, under this Agreement. In the event of any change in any applicable law, statute, or rule which narrows the right of a Delaware corporation to indemnify a member of its Board of Directors, an officer, or other corporate agent, such changes, to the extent not otherwise required by applicable law to be applied to this Agreement, shall have no effect on this Agreement or the parties' rights and obligations hereunder.

7. Partial Indemnification. If Indemnitee is entitled under any provision of this Agreement to indemnification by the Company for some or a portion of the expenses, judgments, fines or penalties actually or reasonably incurred by him in the investigation, defense, appeal or settlement of any civil or criminal action or proceeding, but not, however, for the total amount thereof, the Company shall nevertheless indemnify Indemnitee for the portion of such expenses, judgments, fines or penalties to which Indemnitee is entitled.

8. Public Policy. Both the Company and Indemnitee acknowledge that in certain instances, Federal law or applicable public policy may prohibit the Company from indemnifying its directors and officers under this Agreement or otherwise. Indemnitee understands and acknowledges that the Company has undertaken or may be required in the future to undertake with the Securities and Exchange Commission to submit the question of indemnification to a court in certain circumstances for a determination of the Company's right under public policy to indemnify Indemnitee.

9. Insurance. Although the Company may from time to time maintain insurance for the purpose of indemnifying Indemnitee and other agents of the Company against personal liability, including costs of legal defense, nothing in this Agreement shall obligate the Company to do so.

10. No Restrictions. The rights and remedies of Indemnitee under this Agreement shall not be deemed to exclude or impair any other rights or remedies to which Indemnitee may be entitled under the Certificate of Incorporation or Bylaws of the Company, or under any other agreement, provision of law or otherwise, nor shall anything contained herein restrict the right of the Company to indemnify Indemnitee in any proper case even though not specifically provided for in this Agreement, nor shall anything contained herein restrict Indemnitee's right to contribution as may be available under applicable law. The indemnification provided under this Agreement shall continue as to Indemnitee for any action Indemnitee took or did not take while serving in an indemnified capacity even though Indemnitee may have ceased to serve in such capacity.

11. Termination. The Company may terminate this Agreement at any time upon ninety (90) days written notice, but any such termination will not affect Claims relating to events occurring prior to the effective date of termination.

12. Severability. Each of the provisions of this Agreement is a separate and distinct agreement and independent of the others, so that if any provision hereof shall be held to be invalid or unenforceable for any reason, such invalidity or unenforceability shall not affect the validity or enforceability of the other provisions hereof. Furthermore, to the fullest extent possible, the provisions of this Agreement (including, without limitations, each portion of this Agreement containing any provision held to be invalid, void or otherwise unenforceable, that is not itself invalid, void or unenforceable) shall be construed so as to give effect to the intent manifested by the provision held invalid, illegal or unenforceable.

13. Attorneys' Fees. In the event of any litigation or other action or proceeding to enforce or interpret this Agreement, the prevailing party as determined by the court shall be entitled to an award of its reasonable attorneys' fees and other costs, in addition to such relief as may be awarded by a court or other tribunal.

14. Further Assurances. The parties will do, execute and deliver, or will cause to be done, executed and delivered, all such further acts, documents and things as may be reasonably required for the purpose of giving effect to this Agreement and the transactions contemplated hereby.

15. Acknowledgment. The Company expressly acknowledges that it has entered into this Agreement and assumed the obligations imposed on the Company hereunder in order to induce Indemnitee to serve or to continue to serve as an agent of the Company, and acknowledges that Indemnitee is relying on this Agreement in serving or continuing to serve in such capacity.

16. Construction of Certain Phrases.

(a) "Company". For purposes of this Agreement, references to the "Company" shall also include, in addition to the resulting corporation in any consolidation or merger to which the Company is a party, any constituent corporation (including any constituent of a constituent) absorbed in consolidation or merger which, if its separate existence had continued, would have had power and authority to indemnify its directors, officers, employees or agents, so that if Indemnitee is or was a director, officer, employee or agent of such constituent corporation, or is or was serving at the request of such constituent corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, Indemnitee shall stand in the same position under the provisions of this Agreement with respect to the resulting or surviving corporation as Indemnitee would have with respect to such constituent corporation if its separate existence had continued.

(b) Benefit Plans. References to "fines" contained in this Agreement shall include any excise taxes assessed on Indemnitee with respect to an employee benefit plan; and references to "serving at the request of the Company" shall include any service as a director, officer, employee or agent of the Company which imposes duties on, or involves services by, such director, officer, employee or agent with respect to an employee benefit plan, its participants, or beneficiaries.

17. Counterparts. This Agreement may be executed (including by facsimile) in one or more counterparts, each of which shall constitute an original and together shall constitute one instrument.

18. Notice. All notices, requests, demands and other communications under this Agreement shall be in writing and shall be deemed duly given (i) if delivered by hand and receipted for by the party addressee, on the date of such receipt, or (ii) if mailed by domestic certified or registered mail with postage prepaid, on the third business day after the date postmarked. Addresses for notice to either party are as shown on the signature page of this Agreement, or as subsequently modified by written notice.

19. Subrogation. In the event of payment under this Agreement, the Company shall be subrogated to the extent of such payment to all of the rights of recovery of Indemnitee, who shall execute all documents required and shall do all acts that may be necessary to secure such rights and to enable the Company effectively to bring suit to enforce such rights.

20. Governing Law; Binding Effect; Amendment.

(a) This Agreement shall be interpreted and enforced in accordance with the laws of the State of Delaware applicable to contracts entered into in Delaware.

(b) This Agreement shall be binding upon Indemnitee and the Company, their successors and assigns, and shall inure to the benefit of Indemnitee, his heirs, personal representatives and assigns and to the benefit of the Company, its successors and assigns.

(c) No amendment, modification, termination or cancellation of this Agreement shall be effective unless in writing signed by both parties hereto.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first above written.

LATTICE SEMICONDUCTOR
CORPORATION

By: ______________________________

Title: ______________________________

Address: ______________________________

____

AGREED TO AND ACCEPTED:

____

Address:

____

____