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 October 1, 2005

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes o No ☒

At November 1, 2005, there were 113,616,537 shares of the Registrant's common stock, $.01 par value, outstanding.

The information contained in this Form 10-Q is as of November 4, 2005. This Form 10-Q should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2004.

LATTICE SEMICONDUCTOR CORPORATION

INDEX

Forward-Looking Statements

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

Forward-looking statements involve estimates, assumptions, risks and uncertainties that could cause actual results to differ materially from those expressed in them. The key factors that could cause our actual results to differ materially from the forward-looking statements include any actions resulting from the ongoing Special Litigation Committee’s investigation and the Securities and Exchange Commission’s ongoing informal inquiry, developments in the pending securities and derivative actions, our ability to successfully complete our restructuring without disruption of our business, any delays in the timing of the restructuring and related charges, the possibility that we incorrectly estimated the restructuring charges and the headcount reduction and the possibility that we are unable to realize the anticipated benefits from the restructuring or that the timing of those benefits is delayed, overall semiconductor market conditions, market acceptance and demand for our new products, our dependencies on our silicon wafer supplier, the impact of competitive products and pricing, technological and product development risks, 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.

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		Nine Months Ended	
	September 30, 2005	September 30, 2004	September 30, 2005	September 30, 2004
Revenue	$ 53,390	$ 57,281	$ 157,069	$ 177,291
Costs and expenses:				
Cost of products sold	23,398	24,848	68,431	75,799
Research and development	22,719	23,213	71,759	68,071
Selling, general and administrative	13,558	13,630	44,324	40,786
Amortization of intangible assets (1)	3,968	5,785	12,497	41,490
Total costs and expenses	63,643	67,476	197,011	226,146
Loss from operations	(10,253)	(10,195)	(39,942)	(48,855)
Other income, net	3,405	3,989	14,250	10,232
Loss before income tax expense	(6,848)	(6,206)	(25,692)	(38,623)
Income tax expense	237	118	437	218
Net loss	$ (7,085)	$ (6,324)	$ (26,129)	$ (38,841)

Basic net loss per share	$ (0.06)	$ (0.06)	$ (0.23)	$ (0.34)
Diluted net loss per share	$ (0.06)	$ (0.06)	$ (0.23)	$ (0.34)
Shares used in per share calculations:				
Basic	113,544	113,181	113,495	112,871
Diluted	113,544	113,181	113,495	112,871

(1) Includes $438 and $657 of amortization of deferred stock compensation expense for the three months ended September 30, 2005 and September 30, 2004, respectively, and $1,634 and $2,787 for the nine months ended September 30, 2005 and September 30, 2004, respectively, attributable to research and development activities.

See Accompanying Notes to Condensed Unaudited Consolidated Financial Statements.

LATTICE SEMICONDUCTOR CORPORATION

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

	September 30, 2005	December 31, 2004
Assets		
Current assets:		
Cash and cash equivalents	$ 46,348	$ 44,816
Marketable securities	217,425	251,479
Accounts receivable, net	26,408	19,587
Inventories	32,259	38,634
Other current assets	28,517	46,527
Total current assets	350,957	401,043
Foundry investments, advances and other assets	82,780	97,877
Property and equipment, net	45,170	47,586
Intangible assets, net	29,983	40,795
Goodwill	223,556	223,605
	$ 732,446	$ 810,906
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable and accrued expenses	$ 42,710	$ 61,138
Deferred income on sales to distributors	12,955	11,399
Income taxes payable	84	23
Total current liabilities	55,749	72,560
Zero Coupon Convertible Subordinated Notes due in 2010	133,500	169,000
Other long-term liabilities	24,903	26,755
Commitments and contingencies	—	—
Stockholders' equity:		
Preferred stock, $.01 par value, 10,000,000 shares authorized; none issued and outstanding	—	—
Common stock, $.01 par value, 300,000,000 shares authorized, 113,617,000 and 113,610,000 shares issued and outstanding	1,136	1,136
Paid-in capital	590,259	590,270
Deferred stock compensation	(213)	(1,867)
Accumulated other comprehensive income	1,831	1,642
Accumulated deficit	(74,719)	(48,590)
Total stockholders' equity	518,294	542,591
	$ 732,446	$ 810,906

See Accompanying Notes to Condensed Unaudited Consolidated Financial Statements.

LATTICE SEMICONDUCTOR CORPORATION

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

	Nine Months Ended	
	September 30, 2005	September 30, 2004
Cash flows from operating activities:		
Net loss	$ (26,129)	$ (38,841)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Depreciation and amortization	25,705	58,134
Gain on sale of UMC common stock	(4,291)	(6,071)
Gain on extinguishment of Zero Coupon Convertible Subordinated Notes	(4,927)	(2,756)
Changes in assets and liabilities:		
Accounts receivable	(6,821)	(205)
Inventories	6,375	7,531
Foundry investments, advances and other assets	6,848	(5,486)
Accounts payable and accrued expenses	(19,847)	4,069
Deferred income on sales to distributors	1,556	5,476
Income taxes payable	61	4
Other liabilities	(1,937)	4,133
Total adjustments	2,722	64,829
Net cash (used in) provided by operating activities	(23,407)	25,988
Cash flows from investing activities:		
Proceeds from sales or maturities of marketable securities	216,967	184,912
Purchase of marketable securities	(182,913)	(209,578)
Proceeds from sale of equity securities (principally UMC common stock)	27,464	29,612
Capital expenditures	(7,958)	(8,251)
Net cash provided by (used in) investing activities	53,560	(3,305)
Cash flows from financing activities:		
Extinguishment of Zero Coupon Convertible Subordinated Notes	(30,182)	(11,999)
Advances on Yen line of credit	5,037	4,508
Pay down on Yen line of credit	(3,485)	(367)
Net proceeds from issuance of common stock	9	2,140
Net cash used in financing activities	(28,621)	(5,718)
Net increase in cash and cash equivalents	1,532	16,965
Beginning cash and cash equivalents	44,816	35,276
Ending cash and cash equivalents	$ 46,348	$ 52,241
Supplemental disclosures of cash flow information:		
Cash paid for income taxes	$ 114	$ 489
Cash paid for interest	17	—
Supplemental disclosures of non-cash investing and financing activities:		
Unrealized gain (loss) on appreciation (depreciation) of foundry investments included in Accumulated other comprehensive income	$ 4,739	$ (15,009)

See Accompanying Notes to Condensed Unaudited Consolidated Financial Statements.

LATTICE SEMICONDUCTOR CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1 – Basis of Presentation:

The accompanying condensed consolidated financial statements are unaudited and have been prepared by Lattice Semiconductor Corporation (“the Company”) pursuant to the rules and regulations of the Securities and Exchange Commission and in our opinion include all adjustments, consisting only of normal recurring adjustments, necessary for the fair statement of results for the interim periods. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. These condensed 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, 2004. Prior period disclosures have been reclassified to the extent required to be consistent with the current period presentation.

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 liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting periods. 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.

Note 2 – Revenue Recognition:

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

Note 3 – Net Loss Per Share:

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

The most significant difference between the computation of basic and diluted net income per share is that basic net income per share does not treat potentially dilutive securities such as stock options, warrants and convertible subordinated notes as outstanding. For all periods presented, the computation of diluted net loss per share excludes the effect of shares issuable upon exercise or conversion of our stock options, warrants and Zero Coupon Convertible Subordinated Notes due July 1, 2010, aggregating 16.4 million shares and 16.5 million shares for the third quarter and the first nine months of 2005, respectively, and 16.1 million shares and 22.2 million shares for the third quarter and first nine months of 2004, respectively, as they were antidilutive. A reconciliation of basic and diluted net loss per share is presented below (in thousands, except for per share data):

	Three Months Ended		Nine Months Ended	
	September 30, 2005	September 30, 2004	September 30, 2005	September 30, 2004
Basic and diluted net loss	$ (7,085)	$ (6,324)	$ (26,129)	$ (38,841)
Shares used in basic net loss per share calculations	113,544	113,181	113,495	112,871
Dilutive effect of stock options, warrants and convertible notes	—	—	—	—
Shares used in diluted net loss per share	113,544	113,181	113,495	112,871
Basic net loss per share	$ (0.06)	$ (0.06)	$ (0.23)	$ (0.34)
Diluted net loss per share	$ (0.06)	$ (0.06)	$ (0.23)	$ (0.34)

Stock-Based Compensation

We account for our stock options and employee stock purchase plan in conformity with APB 25 and have adopted the additional pro forma disclosure provisions of SFAS No. 123, as amended by SFAS No. 148. The fair value of our stock-based employee compensation cost, as defined by SFAS No. 123, for stock options was estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions:

	Grants for			
	Three Months Ended		Nine Months Ended	
	September 30, 2005	September 30, 2004	September 30, 2005	September 30, 2004
Stock Options:				
Expected volatility	39.4%	48.6%	39.7%	48.8%
Risk-free interest rate	4.2%	2.9%	4.2%	2.8%
Expected life from vesting date (in years)	1.1	1.4	1.1	1.3
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.

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 $1.49 and $1.71 for the third quarter of 2005 and 2004, respectively, and $1.50 and $1.80 for the first nine months of 2005 and 2004, 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		Nine Months Ended	
	September 30, 2005	September 30, 2004	September 30, 2005	September 30, 2004
Net loss, as reported	$ (7,085)	$ (6,324)	$ (26,129)	$ (38,841)
Add: Stock-based employee compensation expense included in reported loss	438	657	1,634	2,787
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards	(1,278)	(4,050)	(6,063)	(14,210)
Pro forma net loss	$ (7,925)	$ (9,717)	$ (30,558)	$ (50,264)
Net loss per share:				
Basic-as reported	$ (0.06)	$ (0.06)	$ (0.23)	$ (0.34)
Basic-pro forma	$ (0.07)	$ (0.09)	$ (0.27)	$ (0.45)
Diluted-as reported	$ (0.06)	$ (0.06)	$ (0.23)	$ (0.34)
Diluted-pro forma	$ (0.07)	$ (0.09)	$ (0.27)	$ (0.45)

Note 4 – Inventories (in thousands):

	September 30, 2005	December 31, 2004
Work in progress	$ 22,901	$ 29,148
Finished goods	9,358	9,486
	$ 32,259	$ 38,634

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

	Common stock	Paid-in capital	Deferred stock compensation	Accumulated other comprehensive income	Deficit	Total
Balances, Dec. 31, 2004	$ 1,136	$ 590,270	$ (1,867)	$ 1,642	$ (48,590)	$ 542,591
Common stock issued	—	9	—	—	—	9
Unrealized gain on foundry investments, net (Note 6)	—	—	—	4,739	—	4,739
Recognized gain on sale of foundry investments previously unrealized (Note 6)	—	—	—	(4,460)	—	(4,460)
Unrealized loss on stock holdings	—	—	—	(6)	—	(6)
Deferred stock compensation	—	(20)	20	—	—	
Amortization of deferred stock compensation	—	—	1,634	—	—	1,634
Translation adjustment	—	—	—	(84)	—	(84)
Net loss for the nine month period	—	—	—	—	(26,129)	(26,129)
Balances, September 30, 2005	$ 1,136	$ 590,259	$ (213)	$ 1,831	$ (74,719)	$ 518,294

Total comprehensive loss for the first nine months of 2005 was approximately $25.9 million and is substantially comprised of a net loss from operations of $26.1 million, a $4.7 million unrealized gain on foundry investments, and a $4.5 million gain on sale of foundry investments previously included in Accumulated other comprehensive income.

Note 6 – Foundry Investments, Advances and Other Assets (in thousands):

	September 30, 2005	December 31, 2004

Foundry investments and other assets		$ 50,071	$ 72,158
Wafer supply advances		50,333	62,811
		100,404	134,969
Less:	UMC common stock available for sale	(1,536)	(24,202)
	Current portion of wafer advance	(16,088)	(12,890)
		$ 82,780	$ 97,877

As of September 30, 2005, we owned 25.7 million shares of UMC common stock, 23.3 million of which are restricted 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.

During the second quarter of 2005, we sold 37.5 million shares of UMC common stock for a net gain of $4.3 million which was previously recorded as an unrealized gain in Accumulated other comprehensive income. If we liquidate our UMC common stock, 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 7 – Purchased Intangible Assets:

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

September 30, 2005	**Gross**	**Accumulated amortization**	**Net**
Current technology	$ 273.6	$ (253.2)	$ 20.4
Core technology	7.3	(4.4)	2.9
Licenses	10.2	(5.4)	4.8
Non-compete agreements	14.2	(14.1)	0.1
Workforce	4.7	(2.9)	1.8
Backlog	1.4	(1.4)	—
Customer list	17.4	(17.4)	—
Patents and trademarks	26.8	(26.8)	—
Total	$ 355.6	$ (325.6)	$ 30.0

December 31, 2004	**Gross**	**Accumulated amortization**	**Net**
Current technology	$ 273.6	$ (245.5)	$ 28.1
Core technology	7.3	(3.4)	3.9
Licenses	10.2	(4.3)	5.9
Non-compete agreements	14.2	(13.8)	0.4
Workforce	4.7	(2.2)	2.5
Backlog	1.4	(1.4)	—
Customer list	17.4	(17.4)	—
Patents and trademarks	26.8	(26.8)	—
Total	$ 355.6	$ (314.8)	$ 40.8

The estimated future amortization expense of purchased intangible assets as of September 30, 2005 is as follows (in millions):

Fiscal Year:	**Amount**
2005 (remaining three months)	$ 3.6
2006	10.8
2007	9.8
2008	5.6
2009	0.2
	$ 30.0

The estimated future amortization expense of deferred stock compensation attributable to research and development activities as of September 30, 2005 is approximately $0.2 million for the remainder of 2005.

Note 8 – New Accounting Pronouncements:

In March 2004, the Emerging Issues Task Force reached a consensus on recognition and measurement guidance previously discussed under EITF 03-01. The consensus clarifies the meaning of other-than-temporary impairment and its application to investments classified as either available-for-sale or held-to-maturity under SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities." The recognition and measurement guidance for which the consensus was reached in the March 2004 meeting is to be applied to other-than-temporary impairment evaluations in reporting periods beginning after June 15, 2004. In September 2004, the FASB issued a final FASB Staff Position that delays the effective date for the measurement and recognition guidance for all investments within the scope of EITF 03-01. The consensus reached in March 2004 also provided for certain disclosure requirements associated with cost method investments that was effective for fiscal years ending after June 15, 2004. In July 2005, the FASB decided to issue proposed FSP EITF 03-01-a, "Implementation Guidance for the Application of Paragraph 16 of EITF Issue No. 03-01," as final. The final FSP (retitled FSP FAS 115-1) supersedes EITF

03-01 and is effective for other-than-temporary impairment analysis conducted in periods beginning after December 15, 2005. At that time management will evaluate the effect of adopting the recognition and measurement guidance.

In December 2004, the FASB issued a Statement entitled, "Share Based Payment – a revision of SFAS No. 123 (SFAS No. 123R), Accounting for Stock Based Compensation," that addresses the accounting for share-based payment transactions in which a company receives employee services in exchange for either equity instruments of the company or liabilities that are based on the fair value of the company's equity instruments or that may be settled by the issuance of such equity instruments. The statement eliminates the ability to account for share-based compensation transactions using the intrinsic method currently used by the company and generally would require that such transactions be accounted for using a fair-value-based method and recognized as expense in the company's Consolidated Statement of Operations. The effective date of the standard is for fiscal years beginning after June 15, 2005. Accordingly, we will adopt the standard in January 2006. Under SFAS No. 123R, the pro forma disclosures previously permitted will no longer be an alternative to financial statement recognition. We expect to apply the Black-Scholes valuation model in determining the fair value of share-based payments to employees, which will then be amortized over the vesting period. In addition, the SEC issued Staff Accounting Bulletin ("SAB") No. 107 in March 2005, which includes interpretive guidance for the initial implementation of SFAS No. 123R. The adoption of SFAS No. 123R will have a significant and adverse impact on our Consolidated Statement of Operations, as we will be required to expense the fair value of our stock option grants and stock purchases under our employee stock purchase plan. However, it will have no impact on our cash flow. Please refer to Note 3 to our condensed consolidated financial statements which provides historical information that may be useful in assessing the impact of this standard on our condensed consolidated financial statements.

In May 2005, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections – a replacement of APB Opinion No. 20 and FASB Statement No. 3" (SFAS No. 154). SFAS No. 154 requires retrospective application to prior periods' financial statements for changes in accounting principle, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. SFAS No. 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005.

We do not expect the adoption of this standard to have a material impact on our consolidated financial position, results of operations or cash flows.

Note 9 – Legal Matters:

In September and October 2004, three putative class action complaints were filed in the United States District Court for the District of Oregon against Lattice Semiconductor Corporation, our Chief Executive Officer and President Stephen A. Skaggs, and our former Chief Executive Officer Cyrus Y. Tsui. These complaints were filed on behalf of a putative class of investors who purchased our stock between April 22, 2003 and April 19, 2004. They generally allege violations of federal securities laws arising out of our previously announced restatement of financial results for the first, second, and third quarters of 2003. Consistent with the usual procedures for cases of this kind, these cases were amended and consolidated into a single action. In an amended and consolidated complaint filed January 27, 2005 our former President and our former Controller were added as defendants. We believe that the complaints are without merit, and we intend to vigorously defend against the lawsuits.

In September and October 2004, two shareholder derivative complaints were filed, purportedly on behalf of Lattice Semiconductor Corporation, in the Circuit Court of the State of Oregon for the County of Washington, against all members of the board of directors at the time, certain former directors, and certain executive officers. The derivative plaintiffs make allegations substantially similar to those in the putative class action complaints, as well as allegations of breach of fiduciary duty, abuse of control, gross mismanagement, waste of corporate assets, and unjust enrichment. Consistent with the usual procedures for cases of this kind, these cases were consolidated into a single putative shareholder derivative action. On April 1, 2005, an amended and consolidated complaint was filed. On May 16, 2005, the Company, acting through a Special Litigation Committee ("SLC") appointed by the Board of Directors, which was established for the purpose of conducting a review and examination of the claims contained in the shareholder derivative complaints, filed a motion to stay the proceedings to allow the SLC to conduct an investigation. On July 18th, 2005, the Circuit Court held a hearing and stayed the action until a status conference is held. A status conference was scheduled for October 24, 2005, but has been indefinitely postponed. The SLC has been discussing with counsel for the derivative plaintiffs a potential settlement of the derivative action on terms that, among other things, would provide for our Board of Directors to adopt specified corporate governance changes, for the dismissal with prejudice of all claims asserted by the derivative plaintiffs, and for the payment of plaintiffs' counsel's fees and expenses. Such a potential settlement would be subject to and would be effective only if and when, among other things, the parties execute final settlement documents and obtain approval from the Circuit Court. If a settlement agreement is not reached, or is reached but does not become effective, the derivative litigation would continue. Settlement of the derivative litigation would not cover or settle the federal securities action.

All of the complaints generally seek an unspecified amount of damages, as well as attorney fees and costs. The cases are still in the preliminary stages, and it is not possible for us to quantify the extent of our potential liability, if any. An unfavorable outcome in any of these matters could have a material adverse effect on our business, our liquidity and our financial results. In addition, defending any litigation may be costly and divert management's attention from the day-to-day operations of our business.

On June 14, 2005, we announced that our Audit Committee, in connection with its responsibilities for financial oversight, was conducting an internal examination. The examination concerned issues primarily associated with executive compensation and several items pertaining to our internal controls. On August 9, 2005, we announced that the Audit Committee had concluded the examination. We have furnished information regarding the matters examined by the Audit Committee to the Securities and Exchange Commission, which is conducting an ongoing informal inquiry into our prior restatement of financial results. On September 30, 2005 the Securities and Exchange Commission issued a Cease and Desist Order concerning our former Controller, and referenced certain events in connection with our prior restatement of financial results. We are cooperating fully with the Securities and Exchange Commission and intend to continue to do so. We cannot predict the duration or outcome of the Securities and Exchange Commission's inquiry. If the Securities and Exchange Commission expands its informal inquiry or decides to pursue enforcement action against us, or any other governmental agency or regulatory body takes similar action, our management could be distracted, we could incur substantial costs and there could be a material adverse effect on our business. The matters that the Audit Committee was examining were brought to its attention by the SLC.

We are exposed to certain asserted and unasserted potential claims. There can be no assurance that, with respect to potential claims made against us, we could resolve such claims under terms and conditions that would not have a material adverse effect on our business, our liquidity or our financial results. Periodically, we review the status of each significant matter and assess its potential financial exposure. If the potential loss from any claim or legal proceeding is considered probable and a range of possible losses can be estimated, we then accrue a liability for the estimated loss. Any liability for estimated loss is based on the criteria in SFAS No. 5, "Accounting for Contingencies". Legal proceedings are subject to uncertainties, and the outcomes are difficult to predict. Because of such uncertainties, accruals are based only on the best information available at the time. As additional information becomes available, we reassess the potential liability related to pending claims and litigation and may revise estimates. Presently, no accrual has been estimated under SFAS No. 5 for potential losses that may or may not arise from the current lawsuits in which we are involved.

Accruals include billings for legal services performed to date and expected to be performed in the future in connection with the matters described above.

Note 10 – Segment and Geographic Information:

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

	Three Months Ended		Nine Months Ended	
	September 30, 2005	September 30, 2004	September 30, 2005	September 30, 2004
United States revenue:	$ 13,044	$ 13,831	$ 37,365	$ 46,956
Export revenue:				
Europe	12,663	12,703	37,714	40,765
Asia Pacific (other than Japan and China)	9,121	10,479	28,074	31,570
Japan	7,878	8,508	22,664	23,248
China	7,251	8,123	20,297	24,877
Other	3,433	3,637	10,955	9,875
Total revenue from exports	40,346	43,450	119,704	130,335
Total revenue	$ 53,390	$ 57,281	$ 157,069	$ 177,291

Resale of product through two distributors accounted for approximately 13% and 9% of revenue in the first nine months of 2005, and 13% and 10% of revenue for the first nine months of 2004. More than 90% of our property and equipment is located in the United States.

Note 11 – Subsequent Event:

On October 25, 2005, we committed to undertake a corporate restructuring to consolidate operations, streamline engineering functions and lower operating expenses. The restructuring encompasses three major components – an R&D site streamlining, a voluntary separation program for certain employees and an organizational consolidation within our largest design center. These actions are not expected to impact our product direction or product roll-out strategy, which remains unchanged. We expect to complete the restructuring in the fourth quarter of 2005.

As a result of these actions, we expect that total headcount will be reduced by approximately 12 to 14 percent. We currently estimate that the restructuring will result in a reduction in operating expense, effective the first quarter of 2006, of an estimated $3.5-$4.5 million per quarter.

A restructuring charge, estimated to be in the $8-$10 million range, is expected to be recorded in the fourth quarter of 2005. This charge primarily relates to separation packages and costs to vacate space under long-term lease arrangements. The following table displays the current estimate for each major type of cost associated with the restructuring (in thousands):

Severance and related costs	$ 5,000 - 6,000
Lease loss reserve	2,500 - 3,000
Other	500 - 1,000

Approximately $0.5 million-$0.7 million of the total estimated charge is non-cash in nature and will not result in future cash expenditures.

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

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

Overview of Three Month and Nine Month Periods Ended September 30, 2005

Revenue for our business in the third quarter and first nine months ended September 30, 2005 decreased to $53.4 million and $157.1 million, respectively, compared to $57.3 million and $177.3 million for the third quarter and first nine months ended September 30, 2004, respectively. The revenue decline is attributable to Mainstream* and Mature* products which declined 36% and 12%, respectively, for the third quarter and more than offset revenue growth from New* products which increased 61% for the same time period. Likewise, Mainstream* and Mature* products declined 33% and 24%, respectively, for the first nine months of 2005 and more than offset revenue growth from New* products which increased 70% for the same time period. Among other things, future revenue growth is dependent on favorable market acceptance of our New* products. The decline in revenue for the periods referenced is attributable to reduced end market demand.

Revenue attributable to PLD and FPGA products declined 6% and 9%, respectively, for the third quarter of 2005 compared to the third quarter of 2004. Likewise, PLD and FPGA product revenue declined 11% and 13%, respectively, for the first nine months of 2005 compared to the first nine months of 2004.

Our gross margin percentage declined to 56.2% and 56.4% in the third quarter and first nine months of 2005, respectively, compared to 56.6% and 57.2% in the third quarter and first nine months of 2004, respectively. These changes are primarily due to growth in New* products, which carry a lower gross margin, and a decline in revenue from Mature* products, which have a higher gross margin.

Research and development expenses decreased to $22.7 million (43% of revenue) in the third quarter of 2005, and increased to $71.8 million (46% of revenue) in the first nine months of 2005 compared to $23.2 million (41% of revenue) and $68.1 million (38% of revenue) in the same periods in 2004. These changes primarily represent mask and engineering wafer costs to support development of new products and to a lesser extent personnel related costs. As we continue to move to more advanced process technologies such as 90nm and beyond, mask costs are becoming increasingly more expensive and will therefore increasingly represent a greater proportion of total research and development expenses. We expect to continue to make significant investments in research and development.

Selling, general and administrative expenses remained consistent at $13.6 million (25% of revenue) in the third quarter of 2005, and increased to $44.3 million (28% of revenue) in the first nine months of 2005 compared to $13.6 million (24% of revenue) and $40.8 million (23% of revenue) in the third quarter and first nine months of 2004, respectively. The increase in expense for the nine months ended September 30, 2005 is primarily attributable to a $4.0 million charge during the second quarter for legal expenses related to the pending shareholder class action and derivative suits, the related Audit Committee examination, the SLC's ongoing investigation and the Securities and Exchange Commission's ongoing informal inquiry. Legal expenses related to these matters have resulted in a total charge of $5.4 million during the first nine months of 2005. These increases are partially offset by decreases primarily in consulting services, sales related expenses and other miscellaneous items.

Amortization of intangible assets declined to $4.0 million and $12.5 million in the third quarter and first nine months of 2005, respectively, compared to $5.8 million and $41.5 million, respectively, for the same periods in 2004. Amortization of intangible assets acquired in the 1999 Vantis acquisition was completed during the June 30, 2004 quarter, which accounts for most of the decline. These non-cash amortization charges are expected to be substantially eliminated in 2008. Included in these amounts is amortization of deferred stock compensation attributable to research and development activities of $0.4 million and $1.6 million for the third quarter and first nine months of 2005, respectively, compared to $0.7 million and $2.8 million, respectively, for the same periods in 2004.

Other income, net, was $3.4 million and $14.3 million in the third quarter and first nine months of 2005, respectively, and included a gain in the third quarter and first nine months of 2005 on the extinguishment of Zero Coupon Convertible Subordinated Notes due July 1, 2010 ("Convertible Notes") of $1.4 million and $4.9 million, respectively, and interest and dividends on short term investments and cash equivalents of $2.3 million and $5.9 million, respectively, partially offset by amortization of issuance costs on our Convertible Notes. A $4.3 million net gain from the sale of UMC common stock is included in the first nine months of 2005. Other income, net, of $4.0 million and $10.2 million in the third quarter and the first nine months of 2004, respectively, primarily included a gain on the extinguishment of Convertible Notes of $2.8 million for both the third quarter and the first nine months ended in 2004, a net gain on the sale of UMC common stock of $0.5 million and $6.1 million, respectively, and interest and dividends on short term investments and cash equivalents of $1.2 million and $2.9 million, respectively.

We are paying foreign income taxes which are reflected in the Condensed Consolidated Statement of Operations and are primarily related to the cost of operating our offshore sales subsidiaries. We are not currently paying federal or state income taxes and do not expect to pay or accrue such taxes in 2005. We expect to continue to pay foreign income taxes at current levels.

* Product Classification:

New:	LatticeEC/P, LatticeXP, MachXO, FPSC, XPLD, XPGA, GDX2, ORCA 4, ispMACH 4000/Z, ispPAC-POWR, ispCLK
Mainstream:	ORCA 3, GDX/V, ispMACH L/V, ispLSI 2000V, ispLSI 5000V, ispLSI 8000V, ispMACH 5000VG, and Other
Mature:	ORCA 2, all 5-Volt CPLDs, all SPLDs

Results of Operations

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

	Three Months Ended		Nine Months Ended	
	September 30, 2005	September 30, 2004	September 30, 2005	September 30, 2004
Revenue	100.0%	100.0%	100.0%	100.0%
Gross margin	56.2%	56.6%	56.4%	57.2%
Research and development expenses	42.6%	40.5%	45.7%	38.4%
Selling, general and administrative expenses	25.4%	23.8%	28.2%	23.0%
Amortization of intangible assets	7.4%	10.1%	8.0%	23.4%
Loss from operations	(19.2)%	(17.8)%	(25.4)%	(27.6)%

Revenue:

Revenue for the third quarter of 2005 decreased by $3.9 million, or 7%, as compared to the third quarter of 2004, and by $20.2 million, or 11%, for the first nine months of 2005 as compared to the first nine months of 2004. The composition of our revenue by product classification for the third quarter and first nine months of 2005 and 2004 was as follows:

	Three Months Ended		Nine Months Ended	
	September 30, 2005	September 30, 2004	September 30, 2005	September 30, 2004
FPGA	19%	20%	19%	19%
PLD	81%	80%	81%	81%

	Three Months Ended		Nine Months Ended	
	September 30, 2005	September 30, 2004	September 30, 2005	September 30, 2004

New	36%	21%	32%	17%
Mainstream	29%	43%	33%	43%
Mature	35%	36%	35%	40%

The composition of our revenue by geographical location of our direct and indirect customers is as follows (in thousands):

	Three Months Ended			
	September 30, 2005		September 30, 2004	
United States revenue:	$ 13,044	24%	$ 13,831	24%
Export revenue:				
Europe	12,663	24%	12,703	22%
Asia Pacific (other than Japan and China)	9,121	17%	10,479	18%
Japan	7,878	15%	8,508	15%
China	7,251	14%	8,123	14%
Other	3,433	6%	3,637	7%
Total revenue from exports	40,346	76%	43,450	76%
Total revenue	$ 53,390	100%	$ 57,281	100%

	Nine Months Ended			
	September 30, 2005		September 30, 2004	
United States revenue:	$ 37,365	24%	$ 46,956	26%
Export revenue:				
Europe	37,714	24%	40,765	23%
Asia Pacific (other than Japan and China)	28,074	18%	31,570	18%
Japan	22,664	14%	23,248	13%
China	20,297	13%	24,877	14%
Other	10,955	7%	9,875	6%
Total revenue from exports	119,704	76%	130,335	74%
Total revenue	$ 157,069	100%	$ 177,291	100%

During the third quarter and first nine months of 2005 compared to the same periods in 2004, total units remained consistent and decreased by 9%, respectively, while average selling prices decreased 7% and 2%, respectively. The decrease in units sold during the first nine months of 2005 compared to the same period in 2004 was predominantly attributable to lower sales of Mainstream and Mature products due to reduced end market demand. The decrease in average selling price was primarily due to product mix. Selling prices of our products generally decline over time. Higher selling prices of new products commonly offset some or all of this decline in average selling prices, however product mix changes can also have a significant effect on average sales prices.

Geographically, as a percentage of revenue, export revenues were 76% in both the September 30, 2005 and 2004 quarters, and were 76% for the first nine months of 2005 compared to 74% for the first nine months of 2004. Export revenues as a percentage of overall revenue increased in the first nine months of 2005 and revenues from the United States decreased in the first nine months of 2005 compared to the same period in 2004 due to the continuing trend by our customers to perform manufacturing offshore, and relative business conditions in Asia compared to the U.S.

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:

The gross margin percentage decreased from 56.6% in the third quarter of 2004 to 56.2% in the third quarter of 2005. Likewise, our gross margin declined from 57.2% for the first nine months of 2004 to 56.4% for the first nine months of 2005. These changes reflect revenue growth in New* products, which carry a lower gross margin, and a decline in revenue from Mature* products, which carry a higher gross margin.

Research and Development:

Research and development expenses decreased by $0.5 million in the third quarter of 2005, and increased by $3.7 million in the first nine months of 2005 when compared to the same periods in 2004. The changes primarily represent mask and engineering wafer costs for the completion of new products and to a lesser extent personnel related costs. We believe that a continued commitment to research and development is essential in order to achieve and maintain product leadership and provide innovative new product offerings, and therefore we expect to continue to make significant future investments in research and development. As we continue to move to more advanced process technologies such as 90nm and beyond, mask costs are becoming increasingly more expensive and will therefore increasingly represent a greater proportion of total research and development expenses.

Selling, General and Administrative Expense:

Selling, general and administrative expenses decreased approximately $0.1 million in the third quarter of 2005, and increased by $3.5 million in the first nine months of 2005 when compared to the same periods of 2004. The increase in expense during the first nine months of 2005 is primarily attributable to a $4.0 million charge during the second quarter for legal expenses related to the pending shareholder class action and derivative suits, the recently completed Audit Committee's examination, the SLC's ongoing investigation and the Securities and Exchange Commission's ongoing informal inquiry. Legal expenses related to these matters have resulted in a total charge of $5.4 million during the first nine months of 2005. These increases are partially offset by decreases primarily in consulting services, sales related expenses and other miscellaneous items.

Amortization of Intangible Assets:

Amortization of intangible assets is related to our 2002 and 2001 acquisitions and our 1999 Vantis acquisition. Amortization of intangible assets declined to $4.0 million in the third quarter of 2005 compared to $5.8 million in the third quarter of 2004, and to $12.5 million in the first nine months of 2005 compared to $41.5 million in the first nine months of 2004 as certain intangible assets from the Vantis and Agere acquisitions became fully amortized during the second quarter of 2004. Included in these amounts are $0.4 million and $0.7 million of amortization of deferred stock compensation expense for the three months ended September 30, 2005 and September 30, 2004, respectively, and $1.6 million and $2.8 million for the nine months ended September 30, 2005 and September 30, 2004, respectively, attributable to research and development activities.

Other Income, net:

Interest income was $2.3 million and $5.9 million in the third quarter and first nine months of 2005, respectively, compared to $1.2 million and $2.9 million, respectively, for the same periods of 2004. The increase was a result of higher interest rates.

Other income, net, of $3.4 million in the third quarter of 2005 primarily included a $1.4 million gain on the extinguishment of $10.0 million of our Convertible Notes for $8.5 million in cash, which required recognition of $0.1 million of unamortized issuance costs. Amortization of Convertible Notes issuance costs was $0.2 million in the third quarter of 2005. For the nine month period ended September 30, 2005, other income, net, of $14.3 million primarily included a net gain on the sale of UMC common stock of $4.3 million and a gain of $4.9 million on the extinguishment of $35.5 million of Convertible Notes for $30.2 million in cash, which required recognition of $0.4 million of unamortized issuance costs. Amortization of Convertible Notes issuance costs was $0.7 million for the first nine months of 2005.

Other income, net, of $4.0 million in the third quarter of 2004 included a gain on the extinguishment of Convertible Notes of $2.8 million, net gain on the sale of UMC common stock of $0.5 million, and $0.4 million of amortization of issuance costs related to the Convertible Notes. For the nine month period ended September 30, 2004, other income, net, of $10.2 million included a gain on the extinguishment of Convertible Notes of $2.8 million, net gain on the sale of UMC common stock of $6.1 million and $1.2 million of amortization of issuance costs related to the Convertible Notes.

Provision for Income Taxes:

The 2005 tax provision is related to income taxes on our foreign subsidiaries primarily engaged in selling and research and development activities.

Purchased Intangible Assets:

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

September 30, 2005	**Gross**	**Accumulated amortization**	**Net**
Current technology	$ 273.6	$ (253.2)	$ 20.4
Core technology	7.3	(4.4)	2.9
Licenses	10.2	(5.4)	4.8
Non-compete agreements	14.2	(14.1)	0.1
Workforce	4.7	(2.9)	1.8
Backlog	1.4	(1.4)	—
Customer list	17.4	(17.4)	—
Patents and trademarks	26.8	(26.8)	—
Total	$ 355.6	$ (325.6)	$ 30.0

December 31, 2004	**Gross**	**Accumulated amortization**	**Net**
Current technology	$ 273.6	$ (245.5)	$ 28.1
Core technology	7.3	(3.4)	3.9
Licenses	10.2	(4.3)	5.9
Non-compete agreements	14.2	(13.8)	0.4
Workforce	4.7	(2.2)	2.5
Backlog	1.4	(1.4)	—
Customer list	17.4	(17.4)	—
Patents and trademarks	26.8	(26.8)	—
Total	$ 355.6	$ (314.8)	$ 40.8

The estimated future amortization expense of purchased intangible assets as of September 30, 2005 is as follows (in millions):

Fiscal Year:	**Amount**
2005 (remaining three months)	$ 3.6
2006	10.8
2007	9.8
2008	5.6
2009	0.2

	$ 30.0

The estimated future amortization expense of deferred stock compensation attributable to research and development activities as of September 30, 2005 is approximately $0.2 million for the remainder of 2005.

New Accounting Pronouncements:

In March 2004, the Emerging Issues Task Force reached a consensus on recognition and measurement guidance previously discussed under EITF 03-01. The consensus clarifies the meaning of other-than-temporary impairment and its application to investments classified as either available-for-sale or held-to-maturity under SFAS No. 115, “Accounting for Certain Investments in Debt and Equity Securities.” The recognition and measurement guidance for which the consensus was reached in the March 2004 meeting is to be applied to other-than-temporary impairment evaluations in reporting periods beginning after June 15, 2004. In September 2004, the FASB issued a final FASB Staff Position that delays the effective date for the measurement and recognition guidance for all investments within the scope of EITF 03-01. The consensus reached in March 2004 also provided for certain disclosure requirements associated with cost method investments which was effective for fiscal years ending after June 15, 2004. In July 2005, the FASB decided to issue proposed FSP EITF 03-01-a, “Implementation Guidance for the Application of Paragraph 16 of EITF Issue No. 03-01,” as final. The final FSP (retitled FSP FAS 115-1) supersedes EITF 03-01 and is effective for other-than-temporary impairment analysis conducted in periods beginning after December 15, 2005. At that time management will evaluate the affect of adopting the recognition and measurement guidance.

In December 2004, the FASB issued a Statement entitled, “Share Based Payment – a revision of SFAS No. 123 (SFAS No. 123R), Accounting for Stock Based Compensation,” that addresses the accounting for share-based payment transactions in which a company receives employee services in exchange for either equity instruments of the company or liabilities that are based on the fair value of the company’s equity instruments or that may be settled by the issuance of such equity instruments. The statement eliminates the ability to account for share-based compensation transactions using the intrinsic method currently used by the company and generally would require that such transactions be accounted for using a fair-value-based method and recognized as expense in the company’s Consolidated Statement of Operations. The effective date of the standard is for fiscal years beginning after June 15, 2005. Accordingly, we will adopt the standard in January 2006. Under SFAS No. 123R, the pro forma disclosures previously permitted will no longer be an alternative to financial statement recognition. We expect to apply the Black-Scholes valuation model in determining the fair value of share-based payments to employees, which will then be amortized over the vesting period. In addition, the SEC issued Staff Accounting Bulletin (“SAB”) No. 107 in March 2005, which includes interpretive guidance for the initial implementation of SFAS No. 123R. The adoption of SFAS No. 123R will have a significant and adverse impact on our Consolidated Statement of Operations, as we will be required to expense the fair value of our stock option grants and stock purchases under our employee stock purchase plan. However, it will have no impact on our cash flow. Please refer to Note 3 to our condensed consolidated financial statements which provides historical information that may be useful in assessing the impact of this standard on our condensed consolidated financial statements.

In May 2005, the FASB issued SFAS No. 154, “Accounting Changes and Error Corrections – a replacement of APB Opinion No. 20 and FASB Statement No. 3” (SFAS No. 154). SFAS No. 154 requires retrospective application to prior periods’ financial statements for changes in accounting principle, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. SFAS No. 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005.

We do not expect the adoption of this standard to have a material impact on our consolidated financial position, results of operations or cash flows.

Liquidity and Capital Resources

As of September 30, 2005, our principal source of liquidity was $263.8 million of cash and marketable securities, which was approximately $32.5 million less than the balance of $296.3 million at December 31, 2004. This decrease was due primarily to the use of $23.4 million in operations, which includes a $25.0 million payment to Fujitsu pursuant to the Advance Payment Agreement entered into in September 2004 and the extinguishment of $35.5 million of Convertible Notes for $30.2 million in cash offset by $27.5 million in proceeds from the sale of UMC common stock. Working capital decreased to $295.2 million at September 30, 2005 from $328.5 million at December 31, 2004. This decrease was primarily attributable to the aforementioned Convertible Note extinguishments and capital expenditures.

Accounts Receivable increased by $6.8 million to $26.4 million at September 30, 2005 as compared to $19.6 million at December 31, 2004. This increase reflects both higher billings in the September 30, 2005 quarter and the timing of billings.

Inventories decreased $6.4 million to $32.3 million at September 30, 2005 compared to $38.6 million at December 31, 2004 primarily due to levels of shipments greater than procurements in the nine month period ended September 30, 2005.

Other current assets declined by $18.0 million to $28.5 million at September 30, 2005 from $46.5 million at December 31, 2004 primarily reflecting the sale of UMC common stock during the second quarter of 2005 offset by the increase in anticipated receipt of prepaid wafers in the subsequent twelve month period.

Foundry investments, advances and other assets decreased by $15.1 million to $82.8 million at September 30, 2005 as compared to $97.9 million at December 31, 2004 due to a reclassification of prepaid wafers to current assets and the amortization of maintenance contracts.

Property and equipment, less accumulated depreciation and amortization, decreased by $2.4 million to $45.2 million at September 30, 2005 compared to $47.6 million at December 31, 2004 due to depreciation expense being greater than expenditures for capital equipment.

Intangible assets, net, decreased by $10.8 million to $30.0 million at September 30, 2005 from $40.8 million at December 31, 2004, which is attributable to amortization of these assets.

We believe that our existing liquid resources and expected cash generated from future operations 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, which includes a payment to Fujitsu of $75.0 million expected to be made during the first half of 2006 contingent upon the achievement of certain milestones. 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.

On October 25, 2005, we committed to undertake a corporate restructuring to consolidate operations, streamline engineering functions and lower operating expenses. These actions are not expected to impact our product direction or roll out strategy, which remains unchanged. As a result of these actions, we expect that total headcount will be reduced by approximately 12 to 14 percent. We currently estimate that the restructuring will result in a reduction in operating expense, effective the first quarter of 2006, of an estimated $3.5-$4.5 million per quarter. A restructuring charge, estimated to be in the $8-$10 million range, is expected to be recorded in the fourth quarter of 2005. Approximately $0.5 million-$0.7 million of this estimated charge is non-cash in nature and will not result in future cash expenditures.

Contractual Obligations

Our only significant operating lease is for our San Jose, California, facility and it expires in 2008. Annual rent is $3.9 million and increases approximately 3% annually. Leasehold improvements are amortized over the shorter of the non-cancelable lease term or the estimated useful life of the assets.

Off-Balance Sheet Arrangements

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.

Factors Affecting Future Results

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

As a semiconductor company, we operate in a dynamic environment marked by rapid product obsolescence. The programmable logic market is characterized by rapid technology and product evolution and in recent years the market for FPGA products has grown faster than the market for PLD products. Currently we derive a greater proportion of our revenue from PLD products than FPGA products. Consequently, our future success depends on our ability to introduce new FPGA and associated software design tool products that meet evolving customer needs while achieving acceptable margins. We are presently shipping our next generation FPGA product families that are critical to our ability to grow our FPGA product revenue and expand our overall revenue. We also plan to upgrade our customer design tool in the fourth quarter. If these products or future new products fail to achieve market acceptance, our operating results would be harmed.

Fujitsu Limited has agreed to manufacture our next generation FPGA products on its 130 nanometer and 90 nanometer CMOS process technologies, as well as on a 130 nanometer technology with embedded Flash memory that we have jointly developed with Fujitsu. The success of our next generation FPGA products is dependent on our ability to successfully partner with Fujitsu. If for any reason we are unsuccessful in our efforts to partner with Fujitsu in connection with these next generation FPGA products, our future revenue growth would be materially adversely affected.

The introduction of new silicon and software design tool 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 design tool products 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 Fujitsu, Seiko Epson, UMC or future foundries may not be achieved. This could harm our operating results.

We may not realize the expected benefits of our corporate restructuring, which may adversely affect our financial conditions and operating results.

In October 2005, we announced a corporate restructuring to consolidate operations, streamline engineering functions and lower operating expenses. We also announced a voluntary separation program for certain employees. As a result of these actions, we expect that total headcount will be reduced by approximately 12 to 14 percent. We currently estimate that the restructuring will result in a reduction in our operating expenses, effective in the first quarter of 2006, of an estimated $3.5 million to $4.5 million per quarter. A restructuring charge, estimated to be in the $8-$10 million range, is expected to be recorded in the fourth quarter of 2005. We cannot be certain as to the actual amount of this restructuring charge or the timing of its recognition for financial reporting purposes. These benefits may not materialize for a number of reasons, including if we incur unanticipated costs in closing facilities or consolidating our operations or if the actual headcount reduction resulting from our voluntary separation program is lower than anticipated. In addition, we expect that a portion of the estimated reduction in our operating expenses resulting from the reorganization will be offset by other operating expenses, including stock compensation expense that we will recognize beginning in the first quarter of 2006 as a result of the adoption of SFAS 123R. If we are unsuccessful in implementing our restructuring plan, we may experience disruptions in our operations and higher ongoing costs, which may adversely affect our operating results.

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

The majority of our revenue is derived from customers in the communications equipment and computing end markets. Any deterioration in these end markets or any reduction in technology capital spending could lead to a reduction in demand for our products. For example, in the past, a general weakening in demand for programmable logic products from customers in the communications end market has adversely affected our revenue. Whenever adverse economic or end market 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 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.

Historically, the semiconductor industry has experienced periodic downturns of varying degrees of severity and duration. Typically, after such downturns, semiconductor industry conditions improve, although such improvement may not be significant or sustainable. Increased demand for semiconductor industry products may not proportionately increase demand for programmable logic products in general, or our products in particular. Even if demand for our products increases, average sales prices for our products may not increase, and could decline. Whenever adverse semiconductor industry conditions or other similar conditions exist, there is likely to be an adverse effect on our operating results.

We face risks related to pending litigation and an ongoing informal inquiry by the Securities and Exchange Commission.

In September and October 2004, three putative class action complaints were filed in the United States District Court for the District of Oregon against Lattice Semiconductor Corporation, our Chief Executive Officer and President Stephen A. Skaggs, and our former Chief Executive Officer Cyrus Y. Tsui. These complaints were filed on behalf of a putative class of investors who purchased our stock between April 22, 2003 and April 19, 2004. They generally allege violations of federal securities laws arising out of our previously announced restatement of financial results for the first, second and third quarters of 2003. Consistent with the usual procedures for cases of this kind, these cases were amended and consolidated into a single action. In such amended and consolidated complaint filed January 27, 2005 our former President and our former Controller were added as defendants. We believe that the complaints are without merit, and we intend to vigorously defend against the lawsuits.

In September and October 2004, two shareholder derivative complaints were filed, purportedly on behalf of Lattice Semiconductor Corporation, in the Circuit Court of the State of Oregon for the County of Washington, against all members of the board of directors at that time, certain former directors, and certain executive officers. The derivative plaintiffs make allegations substantially similar to those in the putative class action complaints, as well as allegations of breach of fiduciary duty, abuse of control, gross mismanagement, waste of corporate assets, and unjust enrichment. Consistent with the usual procedures for cases of this

kind, these cases were consolidated into a single putative shareholder derivative action. On April 1, 2005, an amended and consolidated complaint was filed. On May 16, 2005, the Company, acting through a Special Litigation Committee (“SLC”) appointed by the Board of Directors, filed a motion to stay the proceedings to allow the SLC to conduct an investigation. On July 18th, 2005, the Circuit Court held a hearing and stayed the action until a status conference is held. A status conference was scheduled for October 24, 2005, but has been indefinitely postponed. The SLC has been discussing with counsel for the derivative plaintiffs a potential settlement of the derivative action on terms that, among other things, would provide for our Board of Directors to adopt specified corporate governance changes, for the dismissal with prejudice of all claims asserted by the derivative plaintiffs, and for the payment of plaintiffs’ counsel’s fees and expenses. Such a potential settlement would be subject to and would be effective only if and when, among other things, the parties execute final settlement documents and obtain approval from the Circuit Court. If a settlement agreement is not reached, or is reached but does not become effective, the derivative litigation would continue. Settlement of the derivative litigation would not cover or settle the federal securities action.

All of the complaints generally seek an unspecified amount of damages, as well as attorney fees and costs. The cases are still in the preliminary stages, and it is not possible for us to quantify the extent of our potential liability, if any. An unfavorable outcome in any of these matters could have a material adverse effect on our business, our liquidity and our financial results. In addition, defending any litigation may be costly and divert management's attention from the day-to-day operations of our business.

On June 14, 2005, we announced that our Audit Committee, in connection with its responsibilities for financial oversight, was conducting an internal examination. The examination concerned issues primarily associated with executive compensation and several items pertaining to our internal controls. On August 9, 2005, we announced that the Audit Committee had concluded the examination. We have furnished information regarding the matters examined by the Audit Committee to the Securities and Exchange Commission, which is conducting an ongoing informal inquiry into our prior restatement of financial results. On September 30, 2005 the Securities and Exchange Commission issued a Cease and Desist Order concerning our former Controller, and referenced certain events in connection with our prior restatement of financial results. We are cooperating fully with the Securities and Exchange Commission and intend to continue to do so. We cannot predict the duration or outcome of the Securities and Exchange Commission's inquiry. If the Securities and Exchange Commission expands its informal inquiry or decides to pursue enforcement action against us, or any other governmental agency or regulatory body takes similar action, our management could be distracted, we could incur substantial costs and there could be a material adverse effect on our business.

We are exposed to certain asserted and unasserted potential claims. There can be no assurance that, with respect to potential claims made against us, we could resolve such claims under terms and conditions that would not have a material adverse effect on our business, our liquidity and our financial results. Periodically, we review the status of each significant matter and assess its potential financial exposure.

If we are unable to effectively and efficiently implement our plan to improve our internal controls there could be a material adverse effect on our operations or financial results.

We received notice from our independent registered public accounting firm that, in connection with the 2003 year-end audit, the independent registered public accounting firm identified a material weakness in our internal controls and procedures relating to separation of duties and establishment of standards for review of journal entries and related file documentation. Although we have implemented various initiatives that have remedied this material weakness, we also intend to make additional changes to our internal controls to address the issues that gave rise to the material weakness.

During our 2004 year-end financial statement closing, we identified a significant deficiency in our internal controls relating to a mechanical error in calculating a unique inventory allowance, which occurred because newly assigned employees did not recognize that the required allowance had been calculated and recorded by existing procedures. The error was not present in previously issued financial statements and was corrected before the year- end financial statements were issued. Additional training and review procedures have been instituted to remedy this deficiency. During 2005, we intend to perform additional training as well as identify ways to modify and automate our inventory compilation processes to make them less vulnerable to manual errors.

On August 9, 2005, we announced that our Audit Committee had completed its previously announced examination, which concerned issues primarily associated with executive compensation and several items pertaining to our internal controls. In connection with the completion of its examination, the Audit Committee recommended, and the board of directors adopted, a number of recommended enhancements to our policies and procedures, including internal control procedures, which are described in "Item 4. Controls and Procedures."

No assurance can be given that we will be able to successfully implement our revised internal controls and procedures and the recently adopted enhancements, or that our revised controls and procedures or enhancements will have the desired effect. In addition, we may be required to hire additional employees, and may experience higher than anticipated capital expenditures and operating expenses, during the implementation of these changes and thereafter. Furthermore, future assessments of our internal controls and procedures may reveal new material

weaknesses or significant deficiencies. If we are unable to implement these changes to our internal controls and procedures effectively or efficiently, or if we discover additional material weaknesses or significant deficiencies, there could be a material adverse effect on our operations or financial results.

The termination of the employment of our long-time Chief Executive Officer may have an adverse impact on our business.

On August 9, 2005, we announced that our board of directors had terminated the employment of our then Chief Executive Officer, Cyrus Y. Tsui. Mr. Tsui served as Chief Executive Officer for almost 17 years, played an integral role in our product definition and development and sales strategy during that time, and had strong business relationships with a number of our key employees, distributors and suppliers. Although we have confidence in our new Chief Executive Officer, Stephen A. Skaggs, and the other members of our executive management team, the departure of Mr. Tsui may have an adverse impact on our business and operations.

Changes in accounting for equity compensation will adversely affect our consolidated statement of operations and could adversely affect our ability to attract and retain employees.

We have historically used stock options as a key component of employee compensation in order to align employees' interests with the interests of our stockholders, encourage employee retention, and provide competitive compensation packages. The Financial Accounting Standards Board has adopted changes to generally accepted accounting principles that require us and other companies to record a charge to earnings for employee stock option grants and other equity incentives beginning in the quarter ended March 31, 2006. To the extent that these or other new regulations make it more difficult or expensive to grant options to employees, we will incur increased compensation costs. We may also change our equity compensation strategy or find it difficult to attract, retain and motivate employees. Any of these results could materially and adversely affect our business.

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

We do not manufacture finished silicon wafers. Currently, our silicon wafers are manufactured by Seiko Epson in Japan, UMC in Taiwan, Chartered Semiconductor in Singapore, and Fujitsu in Japan. If any of our current or future foundry partners significantly interrupts or reduces our wafer supply, our operating results could be harmed.

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

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

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

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

The reliable manufacture of high performance programmable logic devices is a complicated and technically demanding process requiring:

- a high degree of technical skill;
- state-of-the-art equipment;
- the absence of defects in production wafers;
- the elimination of minute impurities and errors in each step of the fabrication process; and
- effective cooperation between the wafer supplier and us.

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

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

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

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

- a high degree of technical skill;
- state-of-the-art equipment;
- the absence of defects in assembly and packaging manufacturing;
- the elimination of raw material impurities and errors in each step of the process; and
- effective cooperation between the assembly contractor and us.

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

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

All of our major silicon wafer suppliers operate fabs located in Asia. Additionally, our finished silicon wafers are assembled and tested by independent contractors located in China, Japan, Malaysia, the Philippines and South Korea. Economic, financial, social and political conditions in Asia have historically been volatile. Financial difficulties, the effects of currency fluctuation, governmental actions or restrictions, prolonged work stoppages, political unrest, war or any other difficulties experienced by our suppliers may disrupt our supply and could harm our operating results.

Export sales account for the majority 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, war or terrorism;
- changes in tax rates, tariffs or freight rates;
- interruptions in air transportation; and
- difficulties in staffing and managing foreign sales offices.

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

Our quarterly operating results have fluctuated in the past 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, Fujitsu or at other foundries;
- changes in manufacturing yields including delays in achieving target yields on new products;
- adverse movements in exchange rates, interest rates or tax rates; and
- the availability of adequate supply commitments from our wafer foundries and assembly and test subcontractors.

Our quarterly results may also fluctuate as a result of the legal expenses accrued in any given period in connection with the pending shareholder class action and derivative suits, the recently completed Audit Committee's examination, the SLC's ongoing investigation and the Securities and Exchange Commission's ongoing informal inquiry. 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;
- announcements of technological innovations or new products by other companies; and
- any developments in the pending shareholder class action and derivative suits and the Securities and Exchange Commission's informal inquiry.

At September 30, 2005, our book value per share was $4.56 compared to our stock price, which has ranged from a low of $4.10 per share to a high of $5.79 per share in the nine months ended September 30, 2005. Presently, our stock price is trading near our consolidated book value. Should our stock price drop below book value for a sustained period, it may become necessary to record an impairment charge to goodwill which would reduce our results of operations.

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 based on alternative technical solutions. These direct and indirect competitors are established multinational semiconductor companies as well as emerging companies.

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 be forced to use 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 at all, without our operating results being adversely affected.

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

Currently we hold substantial equity in UMC, which we acquired as part of a strategic investment to obtain certain manufacturing rights. The market price and valuation of these equity shares has fluctuated widely due to business, stock market or other conditions over which we have little control. During 2001, we recorded a pre-tax impairment loss related to this investment. In the future, UMC common stock may continue to experience significant price volatility. In 2002, 2004 and 2005, 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. As a result, substantial, sustained changes in the market price of UMC common stock could impact our financial results.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes from what we reported in our Annual Report on Form 10-K for the year ended December 31, 2004.

ITEM 4. CONTROLS AND PROCEDURES

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of our disclosure controls and procedures, as such term is defined under Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended. Based on this evaluation, our principal executive officer and our principal financial officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this quarterly report.

Changes in Internal Control over Financial Reporting

On June 14, 2005, we announced that Cyrus Y. Tsui, our then Chief Executive Officer and Chairman of the Board, and Rodney F. Sloss, our then Vice President of Finance, had been placed on paid leave of absence pending completion of an independent examination being undertaken by our Audit Committee. Mr. Tsui, as Chief Executive Officer, Chairman and trading compliance officer and Mr. Sloss, as our Vice President of Finance, each had an important role in our internal control over financial reporting and our disclosure controls and procedures. At that time, the Board appointed Stephen A. Skaggs as acting Chief Executive Officer and
Patrick S. Jones as acting Chairman of the Board. On August 9, 2005, we announced the appointment of Mr. Skaggs as Chief Executive Officer and Mr. Jones as Chairman of the Board, and that our board of directors had terminated the employment of Mr. Tsui and Mr. Sloss. On August 9, 2005, Martin R. Baker, our Corporate Vice President, General Counsel and Secretary, was also designated trading compliance officer. At that time, we also announced that the Audit Committee had completed its previously announced examination.

In connection with the completion of its examination, the Audit Committee recommended, and the board of directors adopted, several enhancements to our policies and procedures, including procedures that relate to internal control. The enhancements adopted include the following: Company officers cannot provide approvals or grant exceptions to Company policy regarding matters that relate to themselves; the CFO reviews and approves the expense reports of the CEO; the Company’s independent registered public accounting firm reviews expense reimbursement procedures during the annual audit; the

Audit Committee, in consultation with the Chief Financial Officer, will periodically consider whether to increase the quarterly review activities conducted by the Company's independent registered public accounting firm; the Company has reinforced its computer use policy; the Board and senior management have reinforced the Company's existing policy that prohibits the use of Company personnel and resources for non-business related purposes; the trading compliance officer's equity transactions must be approved by the CFO; all payments to officers under a Board approved incentive or bonus plan will be reviewed and approved by the Compensation Committee prior to payment; the Board will periodically review staffing needs in all

departments of the Company that serve control functions; and employees hired to do Sarbanes-Oxley compliance will also do periodic internal control monitoring. We have already implemented the majority of these enhancements. The Audit Committee will also review the Company's implementation and adherence to these enhancements on a regular basis.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

In September and October 2004, three putative class action complaints were filed in the United States District Court for the District of Oregon against Lattice Semiconductor Corporation, our Chief Executive Officer and President Stephen A. Skaggs, and our former Chief Executive Officer Cyrus Y. Tsui. These complaints were filed on behalf of a putative class of investors who purchased our stock between April 22, 2003 and April 19, 2004. They generally allege violations of federal securities laws arising out of our previously announced restatement of financial results for the first, second and third quarters of 2003. Consistent with the usual procedures for cases of this kind, these cases were amended and consolidated into a single action. In such amended and consolidated complaint filed January 27, 2005 our former President and our former Controller were added as defendants. We believe that the complaints are without merit, and we intend to vigorously defend against the lawsuits.

In September and October 2004, two shareholder derivative complaints were filed, purportedly on behalf of Lattice Semiconductor Corporation, in the Circuit Court of the State of Oregon for the County of Washington, against all members of the board of directors at that time, certain former directors, and certain executive officers. The derivative plaintiffs make allegations substantially similar to those in the putative class action complaints, as well as allegations of breach of fiduciary duty, abuse of control, gross mismanagement, waste of corporate assets, and unjust enrichment. Consistent with the usual procedures for cases of this kind, these cases were consolidated into a single putative shareholder derivative action. On April 1, 2005, an amended and consolidated complaint was filed. On May 16, 2005, the Company, acting through a Special Litigation Committee ("SLC") appointed by the Board of Directors, for the purpose of conducting a review and examination of the claims contained in the aforementioned shareholder derivative complaints, filed a motion to stay the proceedings to allow the SLC to conduct an investigation. On July 18th, 2005, the Circuit Court held a hearing and stayed the action until a status conference is held. A status conference was scheduled for October 24, 2005, but has been indefinitely postponed. The SLC has been discussing with counsel for the derivative plaintiffs a potential settlement of the derivative action on terms that, among other things, would provide for our Board of Directors to adopt specified corporate governance changes, for the dismissal with prejudice of all claims asserted by the derivative plaintiffs, and for the payment of plaintiffs' counsel's fees and expenses. Such a potential settlement would be subject to and would be effective only if and when, among other things, the parties execute final settlement documents and obtain approval from the Circuit Court. If a settlement agreement is not reached, or is reached but does not become effective, the derivative litigation would continue. Settlement of the derivative litigation would not cover or settle the federal securities action.

All of the complaints generally seek an unspecified amount of damages, as well as attorney fees and costs. The cases are still in the preliminary stages, and it is not possible for us to quantify the extent of our potential liability, if any. An unfavorable outcome in any of these matters could have a material adverse effect on our business, our liquidity and our financial results. In addition, defending any litigation may be costly and divert management's attention from the day-to-day operations of our business.

On June 14, 2005, we announced that our Audit Committee, in connection with its responsibilities for financial oversight, was conducting an internal examination. The examination concerned issues primarily associated with executive compensation and several items pertaining to our internal controls. On August 9, 2005, we announced that the Audit Committee had concluded the examination. We have furnished information regarding the matters examined by the Audit Committee to the Securities and Exchange Commission, which is conducting an ongoing informal inquiry into our prior restatement of financial results. On September 30, 2005 the Securities and Exchange Commission issued a Cease and Desist Order concerning our former Controller, and referenced certain events in connection with our prior restatement of financial results. We are cooperating fully with the Securities and Exchange Commission and intend to continue to do so. We cannot predict the duration or outcome of the Securities and Exchange Commission's inquiry. If the Securities and Exchange Commission expands its informal inquiry or decides to pursue enforcement action against us, or any other governmental agency or regulatory body takes similar action, our management could be distracted, we could incur substantial costs and there could be a material adverse effect on our business. The matters that the Audit Committee was examining were brought to its attention by the SLC.

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

ITEM 5. OTHER INFORMATION

Entry into Material Definitive Agreements

On November 3, 2005, the Company entered into employment agreements with three of its executive officers: Jan Johannessen, its Senior Vice President and Chief Financial Officer, Martin Baker, its Corporate Vice President, General Counsel and Secretary, and Steven Donovan, Corporate Vice President, Sales.

Under the terms of his employment agreement, Mr. Johannessen's base annual salary will be $262,096. Mr. Johannessen is also entitled to receive a bonus for the 2005 fiscal year of up to $100,000, 50% of which will be earned on December 30, 2005 if Mr. Johannessen is still employed on such date. The remaining 50% will be earned based on the achievement of performance objectives that are mutually agreed upon in writing by the Compensation Committee and Mr. Johannessen. For subsequent fiscal years, Mr. Johannessen will participate in an executive bonus plan that will be established by the Company. Under this plan, Mr. Johannessen will be eligible to receive a target bonus of up to 40% of his annual base salary (or such higher figure as determined by the Compensation Committee) based on the achievement of specific milestones to be mutually agreed upon by the Compensation Committee and Mr. Johannessen; provided that Mr. Johannessen may receive an annual bonus of up to 250% of the target bonus for superior achievement of the milestones.

Under the terms of his employment agreement, Mr. Baker's base annual salary will be $224,698. Mr. Baker is also entitled to receive a bonus for the 2005 fiscal year of up to $80,000, 50% of which will be earned on December 30, 2005 if Mr. Baker is still employed on such date. The remaining 50% will be earned based on the achievement of performance objectives that are mutually agreed upon in writing by the Compensation Committee and Mr. Baker. For subsequent fiscal years, Mr. Baker will participate in an executive bonus plan that will be established by the Company. Under this plan, Mr. Baker will be eligible to receive a target bonus of up to 30% of his annual base salary (or such higher figure as determined by the Compensation Committee) based on the achievement of specific milestones to be mutually agreed upon by the Compensation Committee and Mr. Baker; provided that Mr. Baker may receive an annual bonus of up to 250% of the target bonus for superior achievement of the milestones.

Under the terms of his employment agreement, Mr. Donovan's base annual salary will be $227,115. Mr. Donovan is also entitled to receive a bonus for the 2005 fiscal year of up to $40,000, 50% of which will be earned on December 30, 2005 if Mr. Donovan is still employed on such date. The remaining 50% will be earned based on the achievement of performance objectives that are mutually agreed upon in writing by the Compensation Committee and Mr. Donovan. For subsequent fiscal years, Mr. Donovan will participate in an executive bonus plan that will be established by the Company. Under this plan, Mr. Donovan will be eligible to receive a target bonus of up to 30% of his annual base salary (or such higher figure as determined by the Compensation Committee) based on the achievement of specific milestones to be mutually agreed upon by the Compensation Committee and Mr. Donovan; provided that Mr. Donovan may receive an annual bonus of up to 250% of the target bonus for superior achievement of the milestones.

Each of the employment agreements is "at-will", and the Company may terminate the employment of the executive officer with or without Cause (as defined in the employment agreement) by giving the executive officer 30 days advance written notice. Each executive officer may also terminate his employment by giving the Company 30 days advance written notice.

If the Company terminates the employment of an executive officer without Cause or if an executive officer terminates his employment with Good Reason (as defined in the employment agreement), then the executive officer will be entitled to receive (i) a severance payment equal to 1.0 times his then annual base salary plus 1.0 times his then target bonus (adjusted pro rata on a monthly basis depending on the month the termination occurs) and (ii) reimbursement of health insurance premiums for a period of 12 months following his termination date (or such earlier date upon which he receives comparable medical coverage). In addition, if an executive officer is terminated without Cause or terminates his employment with Good Reason within 24 months of a Change in Control (as defined in the employment agreement), the executive officer will (i) receive a severance payment equal to 1.0 times his then current base salary plus 1.0 times his target bonus (without any pro rata adjustment) and (ii) receive reimbursement of health insurance premiums for 12 months. All severance payments are conditioned upon the execution by the executive officer of a release of claims against the Company and his compliance with certain obligations owed to the Company under his employment agreement.

If any of the benefits and payments provided under the employment agreement are considered "parachute payments" within the meaning of Section 280G of the Internal Revenue Code (the "Code") and are thus subject to the excise tax imposed by Section 4999 of the Code, then the executive officer's benefits under the employment shall be payable either (1) in full, or (2) as to such lesser amount which would result in no portion of the such benefits being subject to excise tax under Section 4999 of the Code, whichever of the foregoing amounts, taking into account the applicable federal, state and local income taxes and the excise tax imposed by Section 4999, results in the receipt by the executive officer on an after-tax basis, of the greatest amount of benefits under the employment agreement.

Appointment of Director

On November 1, 2005, the board of directors adopted a resolution increasing the size of the board by one member. The board then appointed Stephen A. Skaggs, our President and Chief Executive Officer, as a Class I Director to fill the vacancy created by the expansion of the board.

ITEM 6. EXHIBITS

Exhibits	
10.1	Employment Agreement with Jan Johannessen, Senior Vice President and Chief Financial Officer
10.2	Employment Agreement with Martin Baker, Corporate Vice President, General Counsel and Secretary
10.3	Employment Agreement with Stephen Donovan, Corporate Vice President, Sales
10.4	Executive Bonus Plan
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended.
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended.
32.1	Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

SIGNATURE

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: November 4, 2005

By: /s/ Jan Johannessen

Jan Johannessen
Senior Vice President and Chief Financial Officer
(Duly Authorized Officer and Principal Financial and Accounting Officer)

EXHIBIT 10.1

EMPLOYMENT AGREEMENT

THIS AGREEMENT is entered into by and between Jan Johannessen (the "Executive") and **LATTICE SEMICONDUCTOR CORPORATION**, a Delaware corporation (the "Company") as of November 1, 2005 (the "Effective Date").

1. **Duties and Scope of Employment**.

(a) **Position**. For the term of his employment under this Agreement ("Employment"), the Executive will serve as the Senior Vice President, Chief Financial Officer and Assistant Secretary ("CFO"). The Executive shall report directly to the Company's Chief Executive Officer (the "CEO") or to an executive officer designated by the CEO. Executive will render such business and professional services in the performance of his duties, consistent with the Executive's position within the Company, as will reasonably be assigned to him by the CEO or, if applicable, such executive officer designated by the CEO.

(b) **Obligations**. The Executive shall have such duties, authority and responsibilities that are commensurate with being an executive officer. During the term of his Employment, the Executive will devote Executive's full business efforts and time to the Company. For the duration of his Employment, Executive agrees not to actively engage in any other employment, occupation, or consulting activity for any direct or indirect remuneration without the prior approval of the Board of Directors (the "Board") (which approval will not be unreasonably withheld); provided, however, that Executive may, without the approval of the Board, serve in any capacity with any civic, educational, or charitable organization, provided such services do not interfere with Executive's obligations to the Company. Executive shall perform his duties primarily at the Company's corporate facility in Hillsboro, Oregon.

(c) **Effective Date**. The Executive shall commence full-time Employment as CFO under this Agreement on the Effective Date.

2. **Cash and Incentive Compensation**.

(a) **Salary**. As of July 3, 2005 and thereafter, the Company shall pay Executive as compensation for his services a base salary at a gross annual rate of not less than $262,096 (such annual salary, as is then in effect, to be referred to herein as "Base Salary"). The Base Salary will be paid periodically in accordance with the Company's normal payroll practices and be subject to the usual, required withholdings, provided, however, that Executive shall receive pro-rata payments of Base Salary no less frequently than once per month. Executive's Base Salary will be subject to review by the Compensation Committee of the Board (the "Committee") not less than annually, and adjustments will be made in the discretion of the Committee.

(b) **Incentive Bonuses**. For the Company's 2005 fiscal year (which ends on December 31, 2005) the Executive shall be eligible to receive an annual fiscal year incentive bonus of up to $100,000 (the "2005 Bonus"). 50% of the 2005 Bonus (the "First Half-2005 Bonus") shall be earned on December 30, 2005 if Executive is an employee of the Company on such date. The remaining 50% of the 2005 Bonus shall be earned based on the achievement of performance objectives that are mutually agreed upon in writing by the Committee and Executive. The earned portion of the 2005 Bonus shall be paid to Executive in cash no later than 45 days after the end of the Company's 2005 fiscal year.

For Company's fiscal years 2006 and beyond, Executive shall be a participant in an Executive Bonus Plan that shall be established by the Company (the "EBP"). Under the EBP, Executive shall be eligible to be considered for an annual fiscal year incentive bonus of 40% of Executive's Base Salary as of the beginning of such fiscal year or such higher figure that the Committee may select (such annual amount is the "Target Bonus"). The Target Bonus shall be awarded based upon the achievement of specific milestones that will be mutually agreed upon by the Committee and Executive no later than 45 days after the start of each fiscal year (the "Target Bonus Milestones"). For superior achievement of the Target Bonus Milestones, Executive may earn a maximum annual fiscal year incentive bonus of up to 250% of Executive's Target Bonus. Cash payment for each fiscal year's Target Bonus actually earned shall be made to Executive no later than 45 days after the end of the applicable fiscal year.

(c) **Terms of Company Compensatory Equity Awards**. Executive shall be eligible for grants of options to purchase shares of the Company's common stock or other Company equity (any prior or future compensatory equity grants to Executive shall be collectively referred to herein as "Compensatory Equity") at times and in such amounts as determined by the Committee. All future grants of Compensatory Equity (and the issuance of any underlying shares) to Executive shall be: (i) issued pursuant to an applicable stockholder-approved plan and (ii) issued pursuant to an effective registration statement filed with the Securities and Exchange Commission under the Securities Act of 1933 as amended. Accelerated vesting of Compensatory Equity may occur: (x) pursuant to the terms of this Agreement and in addition (y) pursuant to the terms of the Plan and any applicable Compensatory Equity agreement. Executive may elect to establish a trading plan in accordance with Rule 10b5-1 of the Securities Exchange Act of 1934 for any of his Compensatory Equity shares, provided, however, that such trading plan must comply with all of the requirements for the safe harbor under Rule 10b5-1 and must be either (i) approved by the Board (such approval not to be unreasonably withheld) or (ii) approved in accordance with any Rule 10b5-1 Trading Plan Policy the Company may subsequently implement.

(d) **Service Definition**. For purposes of this Agreement and Executive's Compensatory Equity, "Service" shall mean service by the Executive as an employee and/or consultant of the Company (or any subsidiary or parent or affiliated entity of the Company) and/or service by the Executive as a member of the Board.

3. **Vacation and Employee Benefits**. During the term of his Employment, the Executive shall accrue paid vacation annually in accordance with the Company's standard vacation policy. During the term of his Employment, the Executive shall be eligible to participate in any employee benefit plans or arrangements maintained by the Company on no less

favorable terms than for other Company executives, subject in each case to the generally applicable terms and conditions of the plan or arrangement in question and to the determinations of any person or committee administering such plan or arrangement.

4. **Business Expenses**. During the term of his Employment, the Executive shall be authorized to incur necessary and reasonable travel, entertainment and other business expenses in connection with his duties hereunder. The Company shall promptly reimburse the Executive for such expenses upon presentation of appropriate supporting documentation, all in accordance with the Company's generally applicable policies. The Company shall also timely pay (or continue to timely pay, as applicable) for all of Executive's home telecommunications phone and facsimile lines and reimburse Executive for his actual mobile phone costs on a monthly basis (not to exceed $200 per monthly bill).

5. **Term of Employment**.

(a) **Basic Rule**. The Company may terminate the Executive's Employment with or without Cause, by giving the Executive 30 days advance notice in writing. The Executive may terminate his Employment by giving the Company 30 days advance notice in writing. The Executive's Employment shall terminate automatically in the event of his death.

(b) **Employment at Will**. The Executive's Employment with the Company shall be "at will," meaning that either the Executive or the Company shall be entitled to terminate the Executive's employment at any time and for any reason, with or without Cause. This Agreement shall constitute the full and complete agreement between the Executive and the Company on the "at will" nature of the Executive's Employment, which may only be changed in an express written agreement signed by the Executive and a member of the Board.

(c) **Rights Upon Termination**. Upon the termination of the Executive's Employment, the Executive shall be entitled to the compensation, benefits and reimbursements described in this Agreement for the period ending as of the effective date of the termination (the "Termination Date"). Upon termination of Executive's Employment for any reason, the Executive shall receive the following payments on the Termination Date: (i) all unpaid salary and unpaid vacation accrued through the Termination Date, (ii) any unpaid, but earned and accrued incentive bonus for any completed applicable bonus determination period under the EBP (whether paid quarterly, annually or as might otherwise be established under the EBP) which has not yet been paid on the Termination Date and (iii) any unreimbursed business expenses. Executive may also be eligible for other post-Employment payments and benefits as provided in this Agreement.

6. **Termination Benefits**.

(a) **Severance Pay**. If there is an Involuntary Termination (as defined below) of Executive's Employment, then the Company shall pay the Executive an amount equal to 1.0 times Executive's then Base Salary, plus up to 1.0 times Executive's then Target Bonus amount (adjusted pro rata on a monthly basis depending upon the month in which the Involuntary Termination may occur) (collectively in the aggregate, the "Cash Severance"). In addition, if not

previously paid to Executive, he shall also receive the First Half-2005 Bonus. Such Cash Severance (and First Half-2005 Bonus if applicable) shall be made in a single lump sum cash payment to Executive on the effective date of the separation agreement referenced in Section 8(a). Executive shall also be entitled to receive the benefits provided in Sections 6(b) and 6(c) and, if applicable, 6(d).

(b) **Health Insurance**. If Subsection (a) above applies, and if Executive elects to continue health insurance coverage under the Consolidated Omnibus Budget Reconciliation Act of 1985 ("COBRA") following the termination of his Employment, then the Company shall pay Executive's monthly premium under COBRA until the earliest of (i) twelve months after the Termination Date or (ii) the date when Executive commences receiving substantially equivalent health insurance coverage in connection with new employment.

(c) **Equity Vesting**. If Subsection (a) above applies, then Executive will be vested only in that number of shares of Company common stock under all of Executive's outstanding Compensatory Equity as are actually vested as of the Termination Date according to the terms of such Compensatory Equity arrangements.

(d) **Effect of Change in Control**. If the Company is subject to a Change in Control (as defined below) and if there is an Involuntary Termination of Executive's Employment in connection with such Change in Control (it will automatically be deemed to be in connection with the Change in Control if there is an Involuntary Termination during the period commencing immediately prior to the Change in Control and extending through the date that is 24 months after the Change in Control): (x) Executive shall immediately vest in (and the Company's right to repurchase, if applicable, shall lapse immediately as to) all of Executive's Compensatory Equity, (y) the amount of the Cash Severance in Section 6(a) shall be increased such that while the Executive shall still receive 1.0 times Base Salary, he shall receive in addition 1.0 times Target Bonus (with no pro ration), and (z) the duration of COBRA coverage in Section 6(b) shall continue to be for 12 months. The Company's obligation to continue to provide Section 6(b) benefits shall not be relieved merely because the legally required minimum period for providing COBRA continuation coverage is for a shorter period than 12 months.

(e) **Excise Tax Gross-Up**. In the event that the benefits provided for in this Agreement (i) constitute "parachute payments" within the meaning of Section 280G of the Code and (ii) but for this Subsection (e), would be subject to the excise tax imposed by Section 4999 of the Code, then the Executive's benefits under this Agreement shall be payable either (1) in full, or (2) as to such lesser amount which would result in no portion of the such benefits being subject to excise tax under Section 4999 of the Code, whichever of the foregoing amounts, taking into account the applicable federal, state and local income taxes and the excise tax imposed by Section 4999, results in the receipt by the Executive on an after-tax basis, of the greatest amount of benefits under this Agreement, notwithstanding that all or some portion of such benefits may be taxable under Section 4999 of the Code. Unless Executive and the Company agree otherwise in writing, the determination of Executive's excise tax liability, if any, and the amount, if any, required to be paid under this Subsection (e) will be made in writing by the independent auditors who are primarily used by the Company immediately prior to the Change of Control (the "Accountants"). For purposes of making the calculations required by this

Subsection (e), the Accountants may make reasonable assumptions and approximations concerning applicable taxes and may rely on reasonable, good faith interpretations concerning the application of Sections 280G and 4999 of the Code. Executive and the Company agree to furnish such information and documents as the Accountants may reasonably request in order to make a determination under this Subsection (e). The Company will bear all costs the Accountants may reasonably incur in connection with any calculations contemplated by this Subsection (e).

(f) **Change in Control Definition**. For purposes of this Agreement, "Change in Control" shall mean the occurrence of any of the following events: (i) the consummation of a merger or consolidation of the Company with or into another entity or any other corporate reorganization, if persons who were not stockholders of the Company immediately prior to such merger, consolidation or other reorganization own immediately after such merger, consolidation or other reorganization 50% or more of the voting power of the outstanding securities of each of (A) the continuing or surviving entity and (B) any direct or indirect parent corporation of such continuing or surviving entity, (ii) the sale, transfer or other disposition of all or substantially all of the Company's assets, (iii) the approval by the stockholders of the Company, or if stockholder approval is not required, approval by the Board, of a plan of complete liquidation or dissolution of the Company or (iv) solely with respect to determining the treatment of Compensatory Equity under the terms of this Agreement, the terms of any applicable definition provided by the Plan or other Company equity incentive plan or arrangement. A transaction shall not constitute a Change in Control if its sole purpose is to change the state of the Company's incorporation or to create a holding company that will be owned in substantially the same proportions by the persons who held the Company's securities immediately before such transaction.

(g) **Cause Definition**. For purposes of this Agreement, "Cause" shall mean (i) Executive's material breach of this Agreement that is not corrected within a 30 day correction period that begins upon delivery to Executive of a written demand from the Board that describes the basis for the Board's belief that Executive has materially breached this Agreement; (ii) any willful act of fraud or dishonesty that causes material damage to the Company; (iii) any willful violation of the Company's insider trading policy; (iv) any willful violation of the Company's conflict of interest policies; (v) any willful unauthorized use or disclosure of trade secrets or other confidential information; or (vi) Executive's conviction of a felony.

The foregoing shall not be deemed an exclusive list of all acts or omissions that the Company may consider as grounds for the termination of Executive's Employment, but it is an exclusive list of the acts or omissions that shall be considered "Cause" for the termination of Executive's Employment by the Company.

(h) **Good Reason Definition**. For all purposes under this Agreement, "Good Reason" shall mean the occurrence of any of the following, without Executive's express written consent: (i) a substantial reduction of Executive's duties or responsibilities; (ii) a reduction in Executive's Base Salary or Target Bonus other than a one-time reduction (not exceeding 10% in the aggregate) that also is applied to substantially all other executive officers of the Company on the CEO's written recommendation or written approval if Executive's reduction is substantially proportionate to, or no greater than, the reduction applied to

substantially all other executive officers; (iii) the Company's material breach of this Agreement including without limitation the failure to timely provide Executive the cash compensation, equity compensation and/or employee benefits specified under this Agreement; or (iv) the Company requiring Executive to relocate his principal place of business or the Company relocating its headquarters, in either case to a facility or location outside of a 30 mile radius from Executive's current principal place of employment; provided, however, that Executive will only have Good Reason if the event or circumstances constituting Good Reason specified in any of the preceding clauses is not cured or otherwise remedied to the Executive's satisfaction within 30 days after Executive gives written notice to the Board.

(i) **Involuntary Termination Definition**. For all purposes under this Agreement, "Involuntary Termination" shall mean any of the following that occur without Executive's prior written consent: (i) termination of Executive's Employment by the Company without Cause, or (ii) Executive's resignation of Employment for Good Reason.

7. **Successors**.

(a) **Company's Successors**. This Agreement shall be binding upon any successor (whether direct or indirect and whether by purchase, lease, merger, consolidation, liquidation or otherwise) to all or substantially all of the Company's business and/or assets. For all purposes under this Agreement, the term "Company" shall include any successor to the Company's business and/or assets which becomes bound by this Agreement.

(b) **Executive's Successors**. This Agreement and all rights of the Executive hereunder shall inure to the benefit of, and be enforceable by, the Executive's personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees.

8. **Conditions to Receipt of Severance; No Duty to Mitigate**.

(a) **Separation Agreement and Release of Claims**. The receipt of any severance benefits pursuant to Section 6 will be subject to Executive signing and not revoking a separation agreement and release of claims in substantially the form attached hereto as Exhibit A, but with any appropriate modifications, reflecting changes in applicable law, as is necessary or appropriate to provide the Company with the protection it would have if the release were executed as of the Start Date. No severance benefits will be paid or provided until the separation agreement and release agreement becomes effective.

(b) **Non-solicitation and Non-competition**. The receipt of any severance benefits will be subject to the Executive agreeing that during Employment and for the 12 month period after the Termination Date (the "Continuance Period"), the Executive will not (i) solicit any employee of the Company for employment other than at the Company, or (ii) directly or indirectly engage in, have any ownership interest in or participate in any entity that as of the Termination Date, directly competes with the Company in any substantial business of the Company or any business reasonably expected to become a substantial business (i.e., at least 5% of the Company's gross revenues) of the Company during the Continuance Period.

Notwithstanding the foregoing, the provisions of Section 8(b)(ii) shall not be applicable to Executive on or after a Change in Control. The Executive's passive ownership of not more than 1% of any publicly traded company and/or 5% ownership of any privately held company will not constitute a breach of this Subsection (b).

(c) **Non-disparagement**. During Employment and the Continuance Period, the Executive will not knowingly publicly disparage, criticize, or otherwise make any derogatory statements regarding the Company, its directors, or its officers. The Company's then and future directors will not knowingly publicly disparage, criticize, or otherwise make any derogatory statements regarding the Executive during his Employment or the Continuance Period. The Company will also instruct its officers to not knowingly publicly disparage, criticize, or otherwise make any derogatory statements regarding the Executive during his Employment or the Continuance Period. Notwithstanding the foregoing, nothing contained in this Agreement will be deemed to restrict the Executive, the Company or any of the Company's current or former officers and/or directors from providing information to any governmental or regulatory agency (or in any way limit the content of such information) to the extent they are requested or required to provide such information pursuant to any applicable law or regulation.

(d) **No Duty to Mitigate**. No payments or benefits provided to Executive (except as expressly provided in Section 6(b)) shall be subject to mitigation or offset.

9. **Miscellaneous Provisions**.

(a) **Indemnification**. The Company shall indemnify Executive to the maximum extent permitted by any applicable indemnification agreement, applicable law and the Company's bylaws with respect to Executive's Service (including timely advancing and/or reimbursing costs as incurred by Executive) and the Executive shall also be covered under a directors and officers liability insurance policy(ies) paid for by the Company.

(b) **Notice**. Notices and all other communications contemplated by this Agreement shall be in writing and shall be deemed to have been duly given when personally delivered or when mailed by overnight courier, U.S. registered or certified mail, return receipt requested and postage prepaid. In the case of the Executive, mailed notices shall be addressed to him at the home address that he most recently communicated to the Company in writing. In the case of the Company, mailed notices shall be addressed to its corporate headquarters, and all notices shall be directed to the attention of its CEO.

(c) **Arbitration**. The Company and Executive agree that any and all disputes arising out of the terms of this Agreement, the Executive's Employment, Executive's Service, or Executive's compensation and benefits, their interpretation and any of the matters herein released, will be subject to binding arbitration in Portland, Oregon before the American Arbitration Association under its National Rules for the Resolution of Employment Disputes. The Company and the Executive agree that the prevailing party in any arbitration will be entitled to injunctive relief in any court of competent jurisdiction to enforce the arbitration award. **The Company and the Executive hereby agree to waive their right to have any dispute between them resolved in a court of law by a judge or jury.** This Subsection (c) will not prevent either

party from seeking injunctive relief (or any other provisional remedy) from any court having jurisdiction over the Company or the Executive and the subject matter of their dispute relating to Executive's obligations under this Agreement. The Company shall be responsible for timely paying for all arbitration and legal fees incurred by both parties as such costs are incurred, provided, however that if (i) the Executive initiates the arbitration proceeding and (ii) the Company prevails in such arbitration that was initiated by the Executive, then each side shall be responsible for paying for their own costs.

(d) **Modifications and Waivers**. No provision of this Agreement shall be modified, waived or discharged unless the modification, waiver or discharge is agreed to in writing and signed by the Executive and by an authorized officer of the Company (other than the Executive). No waiver by either party of any breach of, or of compliance with, any condition or provision of this Agreement by the other party shall be considered a waiver of any other condition or provision or of the same condition or provision at another time.

(e) **Whole Agreement**. This Agreement contains the entire understanding of the parties with respect to the subject matter hereof and supersedes any other agreements, representations or understandings (whether oral or written and whether express or implied) with respect to the subject matter hereof. In the event of any conflict in terms between this Agreement and/or the Plan and/or any agreement executed by and between Executive and the Company, the terms of this Agreement shall prevail and govern.

(f) **Legal Fees**. Each party shall pay its own legal fees and expenses incurred in connection with the preparation and execution of this Agreement.

(g) **Withholding Taxes**. All payments made under this Agreement shall be subject to reduction to reflect taxes or other charges required to be withheld by law.

(h) **Choice of Law**. The validity, interpretation, construction and performance of this Agreement shall be governed by the laws of the State of Oregon (except their provisions governing the choice of law).

(i) **Severability**. The invalidity or unenforceability of any provision or provisions of this Agreement shall not affect the validity or enforceability of any other provision hereof, which shall remain in full force and effect.

(j) **Code Section 409A**. The Company and the Executive agree to work together in good faith to consider amendments to this Agreement necessary or appropriate to avoid imposition of any additional tax or income recognition prior to actual payment to Executive under Code Section 409A and any temporary or final Treasury Regulations and Internal Revenue Service guidance thereunder.

(k) **No Assignment**. This Agreement and all rights and obligations of the Executive hereunder are personal to the Executive and may not be transferred or assigned by the Executive at any time. The Company may assign its rights under this Agreement to any

entity that expressly in writing assumes the Company's obligations hereunder in connection with any sale or transfer of all or substantially all of the Company's assets to such entity.

(l) **Counterparts**. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

IN WITNESS WHEREOF, each of the parties has executed this Agreement, in the case of the Company by its duly authorized officer, as of the Start Date.

/s/ Jan Johannessen
Jan Johannessen

LATTICE SEMICONDUCTOR CORPORATION

By /s/ Stephen A. Skaggs

Title: President & CEO

EXHIBIT A

GENERAL RELEASE

RECITALS

This Separation Agreement and Release ("Agreement") is made by and between Jan Johannessen ("Employee") and Lattice Semiconductor Corporation (the "Company") (jointly referred to as the "Parties"):

WHEREAS, Employee was employed by the Company;

WHEREAS, the Company and Employee entered into an Employment Agreement dated November 1, 2005 (the "Employment Agreement");

WHEREAS, the Parties agree that Employee's employment with the Company will terminate on (the "Termination Date");

WHEREAS, the Company and Employee entered into an Employee Agreement dated [ ] regarding Confidential Information (the "Confidentiality Agreement");

WHEREAS, the Company and Employee entered into an Indemnification Agreement, dated [ ], regarding Employee's rights to indemnification (the "Indemnification Agreement");

WHEREAS, Employee is a participant, or is eligible to participate, in the Company's Executive Deferred Compensation Plan dated [ ], as amended, regarding Employee's rights to receive deferred compensation (the "Deferred Compensation Plan");

WHEREAS, the Company and Employee entered into Stock Option Agreements dated [ ] granting Employee the option to purchase shares of the Company's common stock subject to the terms and conditions of the Company's Stock Option Plan(s) and the Stock Option Agreements (the "Stock Agreements");

WHEREAS, the Parties wish to resolve any and all disputes, claims, complaints, grievances, charges, actions, petitions and demands that Employee may have against the Company as defined herein, arising out of, or related to, Employee's employment with, or separation from, the Company;

NOW THEREFORE, in consideration of the promises made herein, the Parties hereby agree as follows:

COVENANTS

1. Consideration.

(a) Pursuant to Section 8(a) of the Employment Agreement, Employee's receipt of severance is subject to Employee executing and not revoking this Release. In consideration of Employee executing and not revoking this Release, the Company agrees to

pay (or provide, as applicable) Employee a cash payment of $ on the Effective Date and also the benefits specified in the Employment Agreement. Employee acknowledges that such cash payment and the provision of such benefits will be in full satisfaction of the payments and obligations provided under the Employment Agreement and he will not be entitled to any additional salary, wages, bonuses, accrued vacation, housing allowances, relocation costs, interest, severance, stock, stock options, outplacement costs, fees, commissions or any other benefits and compensation, except as provided in any Company employee welfare or pension benefit plans as defined by the Employee Retirement Income Security Act of 1974, as amended ("ERISA") (such plans, the "Benefit Plans"), this Agreement, the Indemnification Agreement, the Deferred Compensation Plan and/or the Stock Agreements.

(b) Stock. Employee acknowledges that as of the Termination Date, and after taking into account any accelerated vesting provided by the Employment Agreement or Stock Agreements, he will then hold vested stock options to acquire [ ] shares of Company common stock and no more. The exercise of any stock options shall continue to be subject to the terms and conditions of the Stock Agreements and the Employment Agreement.

(c) Benefits. Employee's health insurance benefits will cease on the last day of the month of the Termination Date, subject to Employee's right to continue his health insurance as provided in the Employment Agreement (with such premiums to be paid by the Company as provided in the Employment Agreement). Subject to the Employment Agreement, the Deferred Compensation Plan, the Indemnification Agreement, the Stock Agreements and/or the Benefit Plans, Employee's participation in all other benefits and incidents of employment (including, but not limited to, the accrual of vacation and paid time off, and the vesting of stock options) will cease on the Termination Date.

2. **Confidential Information.** Employee shall continue to comply with the terms and conditions of the Confidentiality Agreement, and maintain the confidentiality of all of the Company's confidential and proprietary information. Employee also shall return to the Company all of the Company's property, including all confidential and proprietary information, in Employee's possession, on or before the Effective Date.

3. **Release of Claims.** Employee agrees that the foregoing consideration represents settlement in full of all outstanding obligations owed to Employee by the Company. Employee, on his own behalf and on behalf of his respective heirs, family members, executors, agents, and assigns, hereby fully and forever releases the Company and its current and former: officers, directors, employees, agents, investors, attorneys, shareholders, administrators, affiliates, divisions, subsidiaries, predecessor and successor corporations and assigns (the "Releasees") from, and agrees not to sue concerning, any claim, duty, obligation or cause of action relating to any matters of any kind arising out of or relating to his employment by the Company (except as provided in the Employment Agreement), or his service as an officer of the Company and/or a director of the Company, whether presently known or unknown, suspected or unsuspected, that Employee may possess arising from any omissions, acts or facts that have occurred up until and including the Effective Date, excluding the "Excluded Claims" (as defined below) and including, without limitation:

(a) any and all claims relating to or arising from Employee's employment with the Company, or the termination of that employment;

(b) any and all claims relating to, or arising from, Employee's right to purchase, or actual purchase of, shares of Company stock, including, but not limited to, any claims for fraud, misrepresentation, breach of fiduciary duty, breach of duty under applicable state corporate law, and securities fraud under any state or federal law;

(c) any and all claims under the law of any jurisdiction, including, but not limited to, wrongful discharge of employment; constructive discharge from employment; termination in violation of public policy; discrimination; breach of contract, both express and implied; breach of a covenant of good faith and fair dealing, both express and implied; promissory estoppel; negligent or intentional infliction of emotional distress; negligent or intentional misrepresentation; negligent or intentional interference with contract or prospective economic advantage; unfair business practices; defamation; libel; slander; negligence; personal injury; assault; battery; invasion of privacy; false imprisonment; and conversion;

(d) any and all claims for violation of any federal, state or municipal statute, including, but not limited to, Title VII of the Civil Rights Act of 1964; the Civil Rights Act of 1991; the Age Discrimination in Employment Act of 1967; the Americans with Disabilities Act of 1990; the Fair Labor Standards Act; ERISA; the Worker Adjustment and Retraining Notification Act; the Older Workers Benefit Protection Act; the Family and Medical Leave Act; and the Fair Credit Reporting Act;

(e) any and all claims for violation of the federal, or any state, constitution;

(f) any and all claims arising out of any other laws and regulations relating to employment or employment discrimination; and

(g) any and all claims for attorney fees and costs.

For purposes of this Agreement, the "Excluded Claims" shall include any claims pursuant to the Benefit Plans, the Deferred Compensation Plan, the Indemnification Agreement, the right to receive an excise tax gross-up under Section 6(e) of the Employment Agreement, the non-disparagement clause of Section 8(c) of the Employment Agreement, the right to indemnification under Section 9(a) of the Employment Agreement, the Code Section 409A clause of Section 9(j) of the Employment Agreement, and any right to exercise stock options pursuant to the relevant provisions of the Stock Agreements.

4. **Acknowledgement of Waiver of Claims Under ADEA.** Employee acknowledges that he is waiving and releasing any rights he may have under the Age Discrimination in Employment Act of 1967 ("ADEA") and that this waiver and release is knowing and voluntary. Employee and the Company agree that this waiver and release does not apply to any rights or claims that may arise under the ADEA after the Effective Date. Employee acknowledges that the consideration given for this waiver and release Agreement is in addition to

anything of value to which Employee was already entitled. Employee further acknowledges that he has been advised by this writing that:

(a) he should consult with an attorney prior to executing this Release;

(b) he has up to twenty-one (21) days within which to consider this Release;

(c) he has seven (7) days following his execution of this Release to revoke this Release;

(d) this ADEA waiver shall not be effective until the revocation period has expired; and,

(e) nothing in this Release prevents or precludes Employee from challenging or seeking a determination in good faith of the validity of this waiver under the ADEA, nor does it impose any condition precedent, penalties or costs for doing so, unless specifically authorized by federal law.

5. **Unknown Claims.** The Parties represent that they are not aware of any claim by either of them other than the claims that are released by this Release. Employee acknowledges that he has been advised by legal counsel and are familiar with the principle that a general release does not extend to claims which the releasor does not know or suspect to exist in his favor at the time of executing the Release, which if known by him must have materially affected his settlement with the Releasee. Employee, being aware of said principle, agree to expressly waive any rights Employee may have to that effect, as well as under any other statute or common law principles of similar effect.

6. **Application for Employment.** Employee understands and agrees that, as a condition of this Release, he shall not be entitled to any employment with the Company, its subsidiaries, or any successor, and he hereby waives any alleged right of employment or re-employment with the Company, its subsidiaries or related companies, or any successor.

7. **No Cooperation.** Employee agrees that he will not knowingly counsel or assist any attorneys or their clients in the presentation or prosecution of any disputes, differences, grievances, claims, charges, or complaints by any third party against any of the Releasees, unless requested by a governmental agency or unless under a subpoena or other court order to do so. Employee agrees both to immediately notify the Company upon receipt of any such subpoena or court order, and to furnish, within three (3) business days of its receipt, a copy of such subpoena or court order to the Company. If otherwise approached by anyone for counsel or assistance in the presentation or prosecution of any disputes, differences, grievances, claims, charges, or complaints against any of the Releasees, Employee shall state no more than that he cannot provide counsel or assistance.

8. **Costs.** The Parties shall each bear their own costs, expert fees, attorney fees and other fees incurred in connection with the preparation of this Release.

9. **Arbitration.** The Parties agree that any and all disputes arising out of, or relating to, the terms of this Release, their interpretation, and any of the matters herein released, shall be subject to binding arbitration as described in Section 9(c) of the Employment Agreement.

10. **No Representations.** Each Party represents that it has had the opportunity to consult with an attorney, and has carefully read and understands the scope and effect of the provisions of this Release. Neither Party has relied upon any representations or statements made by the other Party hereto which are not specifically set forth in this Release.

11. **No Oral Modification.** Any modification or amendment of this Release, or additional obligation assumed by either Party in connection with this Release, shall be effective only if placed in writing and signed by both Parties or their authorized representatives.

12. **Entire Agreement.** This Release, the Employment Agreement, the Indemnification Agreement, the Deferred Compensation Plan, the Benefit Plans, the Confidentiality Agreement and the Stock Agreements represent the entire agreement and understanding between the Company and Employee concerning the subject matter of this Release and Employee's relationship with the Company, and supersede and replace any and all prior agreements and understandings between the Parties concerning the subject matter of this Release and Employee's relationship with the Company.

13. **Governing Law.** This Release shall be governed by the laws of the State of Oregon, without regard for choice of law provisions.

14. **Effective Date. T**his Release is only effective after it has been signed by both parties and after eight (8) days have passed following the date Employee signed the Agreement without Employee revoking this Agreement (the "Effective Date").

15. **Voluntary Execution of Release.** This Release is executed voluntarily and with the full intent of releasing all claims, and without any duress or undue influence by any of the Parties. The Parties acknowledge that:

(a) They have read this Release;

(b) They have been represented in the preparation, negotiation, and execution of this Release by legal counsel of their own choice or that they have voluntarily declined to seek such counsel;

(c) They understand the terms and consequences of this Release and of the releases it contains; and

(d) They are fully aware of the legal and binding effect of this Release.

IN WITNESS WHEREOF, each of the Parties has executed this Release, in the case of the Company by a duly authorized officer, as of the day and year written below.

COMPANY:

LATTICE SEMICONDUCTOR CORPORATION

By: ______________________ Date: ______________________

Title: ______________________

EMPLOYEE:

______________________________ Date: ______________________________

Jan Johannessen

EMPLOYMENT AGREEMENT

THIS AGREEMENT is entered into by and between Martin R. Baker (the "Executive") and **LATTICE SEMICONDUCTOR CORPORATION**, a Delaware corporation (the "Company") as of November 1, 2005 (the "Effective Date").

1. **Duties and Scope of Employment**.

(a) **Position**. For the term of his employment under this Agreement ("Employment"), the Executive will serve as the Corporate Vice President, General Counsel and Secretary ("GC"). The Executive shall report directly to the Company's Chief Executive Officer (the "CEO") or to an executive officer designated by the CEO. Executive will render such business and professional services in the performance of his duties, consistent with the Executive's position within the Company, as will reasonably be assigned to him by the CEO or, if applicable, such executive officer designated by the CEO.

(b) **Obligations**. The Executive shall have such duties, authority and responsibilities that are commensurate with being an executive officer. During the term of his Employment, the Executive will devote Executive's full business efforts and time to the Company. For the duration of his Employment, Executive agrees not to actively engage in any other employment, occupation, or consulting activity for any direct or indirect remuneration without the prior approval of the Board of Directors (the "Board") (which approval will not be unreasonably withheld); provided, however, that Executive may, without the approval of the Board, serve in any capacity with any civic, educational, or charitable organization, provided such services do not interfere with Executive's obligations to the Company. Executive shall perform his duties primarily at the Company's corporate facility in Hillsboro, Oregon.

(c) **Effective Date**. The Executive shall commence full-time Employment as GC under this Agreement on the Effective Date.

2. **Cash and Incentive Compensation**.

(a) **Salary**. As of July 3, 2005 and thereafter, the Company shall pay Executive as compensation for his services a base salary at a gross annual rate of not less than $224,698 (such annual salary, as is then in effect, to be referred to herein as "Base Salary"). The Base Salary will be paid periodically in accordance with the Company's normal payroll practices and be subject to the usual, required withholdings, provided, however, that Executive shall receive pro-rata payments of Base Salary no less frequently than once per month. Executive's Base Salary will be subject to review by the Compensation Committee of the Board (the "Committee") not less than annually, and adjustments will be made in the discretion of the Committee.

(b) **Incentive Bonuses**. For the Company's 2005 fiscal year (which ends on December 31, 2005) the Executive shall be eligible to receive an annual fiscal year incentive bonus of up to $80,000 (the "2005 Bonus"). 50% of the 2005 Bonus (the "First Half-2005 Bonus") shall be earned on December 30, 2005 if Executive is an employee of the Company on such date. The remaining 50% of the 2005 Bonus shall be earned based on the achievement of performance objectives that are mutually agreed upon in writing by the Committee and Executive. The earned portion of the 2005 Bonus shall be paid to Executive in cash no later than 45 days after the end of the Company's 2005 fiscal year.

For Company's fiscal years 2006 and beyond, Executive shall be a participant in an Executive Bonus Plan that shall be established by the Company (the "EBP"). Under the EBP, Executive shall be eligible to be considered for an annual fiscal year incentive bonus of 30% of Executive's Base Salary as of the beginning of such fiscal year or such higher figure that the Committee may select (such annual amount is the "Target Bonus"). The Target Bonus shall be awarded based upon the achievement of specific milestones that will be mutually agreed upon by the Committee and Executive no later than 45 days after the start of each fiscal year (the "Target Bonus Milestones"). For superior achievement of the Target Bonus Milestones, Executive may earn a maximum annual fiscal year incentive bonus of up to 250% of Executive's Target Bonus. Cash payment for each fiscal year's Target Bonus actually earned shall be made to Executive no later than 45 days after the end of the applicable fiscal year.

(c) **Terms of Company Compensatory Equity Awards**. Executive shall be eligible for grants of options to purchase shares of the Company's common stock or other Company equity (any prior or future compensatory equity grants to Executive shall be collectively referred to herein as "Compensatory Equity") at times and in such amounts as determined by the Committee. All future grants of Compensatory Equity (and the issuance of any underlying shares) to Executive shall be: (i) issued pursuant to an applicable stockholder-approved plan and (ii) issued pursuant to an effective registration statement filed with the Securities and Exchange Commission under the Securities Act of 1933 as amended. Accelerated vesting of Compensatory Equity may occur: (x) pursuant to the terms of this Agreement and in addition (y) pursuant to the terms of the Plan and any applicable Compensatory Equity agreement. Executive may elect to establish a trading plan in accordance with Rule 10b5-1 of the Securities Exchange Act of 1934 for any of his Compensatory Equity shares, provided, however, that such trading plan must comply with all of the requirements for the safe harbor under Rule 10b5-1 and must be either (i) approved by the Board (such approval not to be unreasonably withheld) or (ii) approved in accordance with any Rule 10b5-1 Trading Plan Policy the Company may subsequently implement.

(d) **Service Definition**. For purposes of this Agreement and Executive's Compensatory Equity, "Service" shall mean service by the Executive as an employee and/or consultant of the Company (or any subsidiary or parent or affiliated entity of the Company) and/or service by the Executive as a member of the Board.

3. **Vacation and Employee Benefits**. During the term of his Employment, the Executive shall accrue paid vacation annually in accordance with the Company's standard vacation policy. During the term of his Employment, the Executive shall be eligible to participate in any employee benefit plans or arrangements maintained by the Company on no less

favorable terms than for other Company executives, subject in each case to the generally applicable terms and conditions of the plan or arrangement in question and to the determinations of any person or committee administering such plan or arrangement.

4. **Business Expenses**. During the term of his Employment, the Executive shall be authorized to incur necessary and reasonable travel, entertainment and other business expenses in connection with his duties hereunder. The Company shall promptly reimburse the Executive for such expenses upon presentation of appropriate supporting documentation, all in accordance with the Company's generally applicable policies. The Company shall also timely pay (or continue to timely pay, as applicable) for all of Executive's home telecommunications phone and facsimile lines and reimburse Executive for his actual mobile phone costs on a monthly basis (not to exceed $200 per monthly bill).

5. **Term of Employment**.

(a) **Basic Rule**. The Company may terminate the Executive's Employment with or without Cause, by giving the Executive 30 days advance notice in writing. The Executive may terminate his Employment by giving the Company 30 days advance notice in writing. The Executive's Employment shall terminate automatically in the event of his death.

(b) **Employment at Will**. The Executive's Employment with the Company shall be "at will," meaning that either the Executive or the Company shall be entitled to terminate the Executive's employment at any time and for any reason, with or without Cause. This Agreement shall constitute the full and complete agreement between the Executive and the Company on the "at will" nature of the Executive's Employment, which may only be changed in an express written agreement signed by the Executive and a member of the Board.

(c) **Rights Upon Termination**. Upon the termination of the Executive's Employment, the Executive shall be entitled to the compensation, benefits and reimbursements described in this Agreement for the period ending as of the effective date of the termination (the "Termination Date"). Upon termination of Executive's Employment for any reason, the Executive shall receive the following payments on the Termination Date: (i) all unpaid salary and unpaid vacation accrued through the Termination Date, (ii) any unpaid, but earned and accrued incentive bonus for any completed applicable bonus determination period under the EBP (whether paid quarterly, annually or as might otherwise be established under the EBP) which has not yet been paid on the Termination Date and (iii) any unreimbursed business expenses. Executive may also be eligible for other post-Employment payments and benefits as provided in this Agreement.

6. **Termination Benefits**.

(a) **Severance Pay**. If there is an Involuntary Termination (as defined below) of Executive's Employment, then the Company shall pay the Executive an amount equal to 1.0 times Executive's then Base Salary, plus up to 1.0 times Executive's then Target Bonus amount (adjusted pro rata on a monthly basis depending upon the month in which the Involuntary Termination may occur) (collectively in the aggregate, the "Cash Severance"). In addition, if not

previously paid to Executive, he shall also receive the First Half-2005 Bonus. Such Cash Severance (and First Half-2005 Bonus if applicable) shall be made in a single lump sum cash payment to Executive on the effective date of the separation agreement referenced in Section 8(a). Executive shall also be entitled to receive the benefits provided in Sections 6(b) and 6(c) and, if applicable, 6(d).

(b) **Health Insurance**. If Subsection (a) above applies, and if Executive elects to continue health insurance coverage under the Consolidated Omnibus Budget Reconciliation Act of 1985 ("COBRA") following the termination of his Employment, then the Company shall pay Executive's monthly premium under COBRA until the earliest of (i) twelve months after the Termination Date or (ii) the date when Executive commences receiving substantially equivalent health insurance coverage in connection with new employment.

(c) **Equity Vesting**. If Subsection (a) above applies, then Executive will be vested only in that number of shares of Company common stock under all of Executive's outstanding Compensatory Equity as are actually vested as of the Termination Date according to the terms of such Compensatory Equity arrangements.

(d) **Effect of Change in Control**. If the Company is subject to a Change in Control (as defined below) and if there is an Involuntary Termination of Executive's Employment in connection with such Change in Control (it will automatically be deemed to be in connection with the Change in Control if there is an Involuntary Termination during the period commencing immediately prior to the Change in Control and extending through the date that is 24 months after the Change in Control): (x) Executive shall immediately vest in (and the Company's right to repurchase, if applicable, shall lapse immediately as to) all of Executive's Compensatory Equity, (y) the amount of the Cash Severance in Section 6(a) shall be increased such that while the Executive shall still receive 1.0 times Base Salary, he shall receive in addition 1.0 times Target Bonus (with no pro ration), and (z) the duration of COBRA coverage in Section 6(b) shall continue to be for 12 months. The Company's obligation to continue to provide Section 6(b) benefits shall not be relieved merely because the legally required minimum period for providing COBRA continuation coverage is for a shorter period than 12 months.

(e) **Excise Tax Gross-Up**. In the event that the benefits provided for in this Agreement (i) constitute "parachute payments" within the meaning of Section 280G of the Code and (ii) but for this Subsection (e), would be subject to the excise tax imposed by Section 4999 of the Code, then the Executive's benefits under this Agreement shall be payable either (1) in full, or (2) as to such lesser amount which would result in no portion of the such benefits being subject to excise tax under Section 4999 of the Code, whichever of the foregoing amounts, taking into account the applicable federal, state and local income taxes and the excise tax imposed by Section 4999, results in the receipt by the Executive on an after-tax basis, of the greatest amount of benefits under this Agreement, notwithstanding that all or some portion of such benefits may be taxable under Section 4999 of the Code. Unless Executive and the Company agree otherwise in writing, the determination of Executive's excise tax liability, if any, and the amount, if any, required to be paid under this Subsection (e) will be made in writing by the independent auditors who are primarily used by the Company immediately prior to the Change of Control (the "Accountants"). For purposes of making the calculations required by this

Subsection (e), the Accountants may make reasonable assumptions and approximations concerning applicable taxes and may rely on reasonable, good faith interpretations concerning the application of Sections 280G and 4999 of the Code. Executive and the Company agree to furnish such information and documents as the Accountants may reasonably request in order to make a determination under this Subsection (e). The Company will bear all costs the Accountants may reasonably incur in connection with any calculations contemplated by this Subsection (e).

(f) **Change in Control Definition**. For purposes of this Agreement, "Change in Control" shall mean the occurrence of any of the following events: (i) the consummation of a merger or consolidation of the Company with or into another entity or any other corporate reorganization, if persons who were not stockholders of the Company immediately prior to such merger, consolidation or other reorganization own immediately after such merger, consolidation or other reorganization 50% or more of the voting power of the outstanding securities of each of (A) the continuing or surviving entity and (B) any direct or indirect parent corporation of such continuing or surviving entity, (ii) the sale, transfer or other disposition of all or substantially all of the Company's assets, (iii) the approval by the stockholders of the Company, or if stockholder approval is not required, approval by the Board, of a plan of complete liquidation or dissolution of the Company or (iv) solely with respect to determining the treatment of Compensatory Equity under the terms of this Agreement, the terms of any applicable definition provided by the Plan or other Company equity incentive plan or arrangement. A transaction shall not constitute a Change in Control if its sole purpose is to change the state of the Company's incorporation or to create a holding company that will be owned in substantially the same proportions by the persons who held the Company's securities immediately before such transaction.

(g) **Cause Definition**. For purposes of this Agreement, "Cause" shall mean (i) Executive's material breach of this Agreement that is not corrected within a 30 day correction period that begins upon delivery to Executive of a written demand from the Board that describes the basis for the Board's belief that Executive has materially breached this Agreement; (ii) any willful act of fraud or dishonesty that causes material damage to the Company; (iii) any willful violation of the Company's insider trading policy; (iv) any willful violation of the Company's conflict of interest policies; (v) any willful unauthorized use or disclosure of trade secrets or other confidential information; or (vi) Executive's conviction of a felony.

The foregoing shall not be deemed an exclusive list of all acts or omissions that the Company may consider as grounds for the termination of Executive's Employment, but it is an exclusive list of the acts or omissions that shall be considered "Cause" for the termination of Executive's Employment by the Company.

(h) **Good Reason Definition**. For all purposes under this Agreement, "Good Reason" shall mean the occurrence of any of the following, without Executive's express written consent: (i) a substantial reduction of Executive's duties or responsibilities; (ii) a reduction in Executive's Base Salary or Target Bonus other than a one-time reduction (not exceeding 10% in the aggregate) that also is applied to substantially all other executive officers of the Company on the CEO's written recommendation or written approval if Executive's reduction is substantially proportionate to, or no greater than, the reduction applied to

substantially all other executive officers; (iii) the Company's material breach of this Agreement including without limitation the failure to timely provide Executive the cash compensation, equity compensation and/or employee benefits specified under this Agreement; or (iv) the Company requiring Executive to relocate his principal place of business or the Company relocating its headquarters, in either case to a facility or location outside of a 30 mile radius from Executive's current principal place of employment; provided, however, that Executive will only have Good Reason if the event or circumstances constituting Good Reason specified in any of the preceding clauses is not cured or otherwise remedied to the Executive's satisfaction within 30 days after Executive gives written notice to the Board.

(i) **Involuntary Termination Definition**. For all purposes under this Agreement, "Involuntary Termination" shall mean any of the following that occur without Executive's prior written consent: (i) termination of Executive's Employment by the Company without Cause, or (ii) Executive's resignation of Employment for Good Reason.

7. **Successors**.

(a) **Company's Successors**. This Agreement shall be binding upon any successor (whether direct or indirect and whether by purchase, lease, merger, consolidation, liquidation or otherwise) to all or substantially all of the Company's business and/or assets. For all purposes under this Agreement, the term "Company" shall include any successor to the Company's business and/or assets which becomes bound by this Agreement.

(b) **Executive's Successors**. This Agreement and all rights of the Executive hereunder shall inure to the benefit of, and be enforceable by, the Executive's personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees.

8. **Conditions to Receipt of Severance; No Duty to Mitigate**.

(a) **Separation Agreement and Release of Claims**. The receipt of any severance benefits pursuant to Section 6 will be subject to Executive signing and not revoking a separation agreement and release of claims in substantially the form attached hereto as Exhibit A, but with any appropriate modifications, reflecting changes in applicable law, as is necessary or appropriate to provide the Company with the protection it would have if the release were executed as of the Start Date. No severance benefits will be paid or provided until the separation agreement and release agreement becomes effective.

(b) **Non-solicitation and Non-competition**. The receipt of any severance benefits will be subject to the Executive agreeing that during Employment and for the 12 month period after the Termination Date (the "Continuance Period"), the Executive will not (i) solicit any employee of the Company for employment other than at the Company, or (ii) directly or indirectly engage in, have any ownership interest in or participate in any entity that as of the Termination Date, directly competes with the Company in any substantial business of the Company or any business reasonably expected to become a substantial business (i.e., at least 5% of the Company's gross revenues) of the Company during the Continuance Period.

Notwithstanding the foregoing, the provisions of Section 8(b)(ii) shall not be applicable to Executive on or after a Change in Control. The Executive's passive ownership of not more than 1% of any publicly traded company and/or 5% ownership of any privately held company will not constitute a breach of this Subsection (b).

(c) **Non-disparagement**. During Employment and the Continuance Period, the Executive will not knowingly publicly disparage, criticize, or otherwise make any derogatory statements regarding the Company, its directors, or its officers. The Company's then and future directors will not knowingly publicly disparage, criticize, or otherwise make any derogatory statements regarding the Executive during his Employment or the Continuance Period. The Company will also instruct its officers to not knowingly publicly disparage, criticize, or otherwise make any derogatory statements regarding the Executive during his Employment or the Continuance Period. Notwithstanding the foregoing, nothing contained in this Agreement will be deemed to restrict the Executive, the Company or any of the Company's current or former officers and/or directors from providing information to any governmental or regulatory agency (or in any way limit the content of such information) to the extent they are requested or required to provide such information pursuant to any applicable law or regulation.

(d) **No Duty to Mitigate**. No payments or benefits provided to Executive (except as expressly provided in Section 6(b)) shall be subject to mitigation or offset.

9. **Miscellaneous Provisions**.

(a) **Indemnification**. The Company shall indemnify Executive to the maximum extent permitted by any applicable indemnification agreement, applicable law and the Company's bylaws with respect to Executive's Service (including timely advancing and/or reimbursing costs as incurred by Executive) and the Executive shall also be covered under a directors and officers liability insurance policy(ies) paid for by the Company.

(b) **Notice**. Notices and all other communications contemplated by this Agreement shall be in writing and shall be deemed to have been duly given when personally delivered or when mailed by overnight courier, U.S. registered or certified mail, return receipt requested and postage prepaid. In the case of the Executive, mailed notices shall be addressed to him at the home address that he most recently communicated to the Company in writing. In the case of the Company, mailed notices shall be addressed to its corporate headquarters, and all notices shall be directed to the attention of its CEO.

(c) **Arbitration**. The Company and Executive agree that any and all disputes arising out of the terms of this Agreement, the Executive's Employment, Executive's Service, or Executive's compensation and benefits, their interpretation and any of the matters herein released, will be subject to binding arbitration in Portland, Oregon before the American Arbitration Association under its National Rules for the Resolution of Employment Disputes. The Company and the Executive agree that the prevailing party in any arbitration will be entitled to injunctive relief in any court of competent jurisdiction to enforce the arbitration award. **The Company and the Executive hereby agree to waive their right to have any dispute between them resolved in a court of law by a judge or jury.** This Subsection (c) will not prevent either

party from seeking injunctive relief (or any other provisional remedy) from any court having jurisdiction over the Company or the Executive and the subject matter of their dispute relating to Executive's obligations under this Agreement. The Company shall be responsible for timely paying for all arbitration and legal fees incurred by both parties as such costs are incurred, provided, however that if (i) the Executive initiates the arbitration proceeding and (ii) the Company prevails in such arbitration that was initiated by the Executive, then each side shall be responsible for paying for their own costs.

(d) **Modifications and Waivers**. No provision of this Agreement shall be modified, waived or discharged unless the modification, waiver or discharge is agreed to in writing and signed by the Executive and by an authorized officer of the Company (other than the Executive). No waiver by either party of any breach of, or of compliance with, any condition or provision of this Agreement by the other party shall be considered a waiver of any other condition or provision or of the same condition or provision at another time.

(e) **Whole Agreement**. This Agreement contains the entire understanding of the parties with respect to the subject matter hereof and supersedes any other agreements, representations or understandings (whether oral or written and whether express or implied) with respect to the subject matter hereof. In the event of any conflict in terms between this Agreement and/or the Plan and/or any agreement executed by and between Executive and the Company, the terms of this Agreement shall prevail and govern.

(f) **Legal Fees**. Each party shall pay its own legal fees and expenses incurred in connection with the preparation and execution of this Agreement.

(g) **Withholding Taxes**. All payments made under this Agreement shall be subject to reduction to reflect taxes or other charges required to be withheld by law.

(h) **Choice of Law**. The validity, interpretation, construction and performance of this Agreement shall be governed by the laws of the State of Oregon (except their provisions governing the choice of law).

(i) **Severability**. The invalidity or unenforceability of any provision or provisions of this Agreement shall not affect the validity or enforceability of any other provision hereof, which shall remain in full force and effect.

(j) **Code Section 409A**. The Company and the Executive agree to work together in good faith to consider amendments to this Agreement necessary or appropriate to avoid imposition of any additional tax or income recognition prior to actual payment to Executive under Code Section 409A and any temporary or final Treasury Regulations and Internal Revenue Service guidance thereunder.

(k) **No Assignment**. This Agreement and all rights and obligations of the Executive hereunder are personal to the Executive and may not be transferred or assigned by the Executive at any time. The Company may assign its rights under this Agreement to any

entity that expressly in writing assumes the Company's obligations hereunder in connection with any sale or transfer of all or substantially all of the Company's assets to such entity.

(l) **Counterparts**. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

IN WITNESS WHEREOF, each of the parties has executed this Agreement, in the case of the Company by its duly authorized officer, as of the Start Date.

/s/ Martin R. Baker
Martin R. Baker

LATTICE SEMICONDUCTOR CORPORATION

By /s/ Stephen A. Skaggs

Title: President & CEO

EXHIBIT A

GENERAL RELEASE

RECITALS

This Separation Agreement and Release ("Agreement") is made by and between Martin R. Baker ("Employee") and Lattice Semiconductor Corporation (the "Company") (jointly referred to as the "Parties"):

WHEREAS, Employee was employed by the Company;

WHEREAS, the Company and Employee entered into an Employment Agreement dated November 1, 2005 (the "Employment Agreement");

WHEREAS, the Parties agree that Employee's employment with the Company will terminate on (the "Termination Date");

WHEREAS, the Company and Employee entered into an Employee Agreement dated [ ] regarding Confidential Information (the "Confidentiality Agreement");

WHEREAS, the Company and Employee entered into an Indemnification Agreement, dated [ ], regarding Employee's rights to indemnification (the "Indemnification Agreement");

WHEREAS, Employee is a participant, or is eligible to participate, in the Company's Executive Deferred Compensation Plan dated [ ], as amended, regarding Employee's rights to receive deferred compensation (the "Deferred Compensation Plan");

WHEREAS, the Company and Employee entered into Stock Option Agreements dated [ ] granting Employee the option to purchase shares of the Company's common stock subject to the terms and conditions of the Company's Stock Option Plan(s) and the Stock Option Agreements (the "Stock Agreements");

WHEREAS, the Parties wish to resolve any and all disputes, claims, complaints, grievances, charges, actions, petitions and demands that Employee may have against the Company as defined herein, arising out of, or related to, Employee's employment with, or separation from, the Company;

NOW THEREFORE, in consideration of the promises made herein, the Parties hereby agree as follows:

COVENANTS

1. Consideration.

(a) Pursuant to Section 8(a) of the Employment Agreement, Employee's receipt of severance is subject to Employee executing and not revoking this Release. In consideration of Employee executing and not revoking this Release, the Company agrees to

pay (or provide, as applicable) Employee a cash payment of $ on the Effective Date and also the benefits specified in the Employment Agreement. Employee acknowledges that such cash payment and the provision of such benefits will be in full satisfaction of the payments and obligations provided under the Employment Agreement and he will not be entitled to any additional salary, wages, bonuses, accrued vacation, housing allowances, relocation costs, interest, severance, stock, stock options, outplacement costs, fees, commissions or any other benefits and compensation, except as provided in any Company employee welfare or pension benefit plans as defined by the Employee Retirement Income Security Act of 1974, as amended ("ERISA") (such plans, the "Benefit Plans"), this Agreement, the Indemnification Agreement, the Deferred Compensation Plan and/or the Stock Agreements.

(b) Stock. Employee acknowledges that as of the Termination Date, and after taking into account any accelerated vesting provided by the Employment Agreement or Stock Agreements, he will then hold vested stock options to acquire [ ] shares of Company common stock and no more. The exercise of any stock options shall continue to be subject to the terms and conditions of the Stock Agreements and the Employment Agreement.

(c) Benefits. Employee's health insurance benefits will cease on the last day of the month of the Termination Date, subject to Employee's right to continue his health insurance as provided in the Employment Agreement (with such premiums to be paid by the Company as provided in the Employment Agreement). Subject to the Employment Agreement, the Deferred Compensation Plan, the Indemnification Agreement, the Stock Agreements and/or the Benefit Plans, Employee's participation in all other benefits and incidents of employment (including, but not limited to, the accrual of vacation and paid time off, and the vesting of stock options) will cease on the Termination Date.

2. Confidential Information. Employee shall continue to comply with the terms and conditions of the Confidentiality Agreement, and maintain the confidentiality of all of the Company's confidential and proprietary information. Employee also shall return to the Company all of the Company's property, including all confidential and proprietary information, in Employee's possession, on or before the Effective Date.

3. Release of Claims. Employee agrees that the foregoing consideration represents settlement in full of all outstanding obligations owed to Employee by the Company. Employee, on his own behalf and on behalf of his respective heirs, family members, executors, agents, and assigns, hereby fully and forever releases the Company and its current and former: officers, directors, employees, agents, investors, attorneys, shareholders, administrators, affiliates, divisions, subsidiaries, predecessor and successor corporations and assigns (the "Releasees") from, and agrees not to sue concerning, any claim, duty, obligation or cause of action relating to any matters of any kind arising out of or relating to his employment by the Company (except as provided in the Employment Agreement), or his service as an officer of the Company and/or a director of the Company, whether presently known or unknown, suspected or unsuspected, that Employee may possess arising from any omissions, acts or facts that have occurred up until and including the Effective Date, excluding the "Excluded Claims" (as defined below) and including, without limitation:

(a) any and all claims relating to or arising from Employee's employment with the Company, or the termination of that employment;

(b) any and all claims relating to, or arising from, Employee's right to purchase, or actual purchase of, shares of Company stock, including, but not limited to, any claims for fraud, misrepresentation, breach of fiduciary duty, breach of duty under applicable state corporate law, and securities fraud under any state or federal law;

(c) any and all claims under the law of any jurisdiction, including, but not limited to, wrongful discharge of employment; constructive discharge from employment; termination in violation of public policy; discrimination; breach of contract, both express and implied; breach of a covenant of good faith and fair dealing, both express and implied; promissory estoppel; negligent or intentional infliction of emotional distress; negligent or intentional misrepresentation; negligent or intentional interference with contract or prospective economic advantage; unfair business practices; defamation; libel; slander; negligence; personal injury; assault; battery; invasion of privacy; false imprisonment; and conversion;

(d) any and all claims for violation of any federal, state or municipal statute, including, but not limited to, Title VII of the Civil Rights Act of 1964; the Civil Rights Act of 1991; the Age Discrimination in Employment Act of 1967; the Americans with Disabilities Act of 1990; the Fair Labor Standards Act; ERISA; the Worker Adjustment and Retraining Notification Act; the Older Workers Benefit Protection Act; the Family and Medical Leave Act; and the Fair Credit Reporting Act;

(e) any and all claims for violation of the federal, or any state, constitution;

(f) any and all claims arising out of any other laws and regulations relating to employment or employment discrimination; and

(g) any and all claims for attorney fees and costs.

For purposes of this Agreement, the "Excluded Claims" shall include any claims pursuant to the Benefit Plans, the Deferred Compensation Plan, the Indemnification Agreement, the right to receive an excise tax gross-up under Section 6(e) of the Employment Agreement, the non-disparagement clause of Section 8(c) of the Employment Agreement, the right to indemnification under Section 9(a) of the Employment Agreement, the Code Section 409A clause of Section 9(j) of the Employment Agreement, and any right to exercise stock options pursuant to the relevant provisions of the Stock Agreements.

4. Acknowledgement of Waiver of Claims Under ADEA. Employee acknowledges that he is waiving and releasing any rights he may have under the Age Discrimination in Employment Act of 1967 ("ADEA") and that this waiver and release is knowing and voluntary. Employee and the Company agree that this waiver and release does not apply to any rights or claims that may arise under the ADEA after the Effective Date. Employee acknowledges that the consideration given for this waiver and release Agreement is in addition to

anything of value to which Employee was already entitled. Employee further acknowledges that he has been advised by this writing that:

(a) he should consult with an attorney prior to executing this Release;

(b) he has up to twenty-one (21) days within which to consider this Release;

(c) he has seven (7) days following his execution of this Release to revoke this Release;

(d) this ADEA waiver shall not be effective until the revocation period has expired; and,

(e) nothing in this Release prevents or precludes Employee from challenging or seeking a determination in good faith of the validity of this waiver under the ADEA, nor does it impose any condition precedent, penalties or costs for doing so, unless specifically authorized by federal law.

5. **Unknown Claims.** The Parties represent that they are not aware of any claim by either of them other than the claims that are released by this Release. Employee acknowledges that he has been advised by legal counsel and are familiar with the principle that a general release does not extend to claims which the releasor does not know or suspect to exist in his favor at the time of executing the Release, which if known by him must have materially affected his settlement with the Releasee. Employee, being aware of said principle, agree to expressly waive any rights Employee may have to that effect, as well as under any other statute or common law principles of similar effect.

6. **Application for Employment.** Employee understands and agrees that, as a condition of this Release, he shall not be entitled to any employment with the Company, its subsidiaries, or any successor, and he hereby waives any alleged right of employment or re-employment with the Company, its subsidiaries or related companies, or any successor.

7. **No Cooperation.** Employee agrees that he will not knowingly counsel or assist any attorneys or their clients in the presentation or prosecution of any disputes, differences, grievances, claims, charges, or complaints by any third party against any of the Releasees, unless requested by a governmental agency or unless under a subpoena or other court order to do so. Employee agrees both to immediately notify the Company upon receipt of any such subpoena or court order, and to furnish, within three (3) business days of its receipt, a copy of such subpoena or court order to the Company. If otherwise approached by anyone for counsel or assistance in the presentation or prosecution of any disputes, differences, grievances, claims, charges, or complaints against any of the Releasees, Employee shall state no more than that he cannot provide counsel or assistance.

8. **Costs.** The Parties shall each bear their own costs, expert fees, attorney fees and other fees incurred in connection with the preparation of this Release.

9. **Arbitration.** The Parties agree that any and all disputes arising out of, or relating to, the terms of this Release, their interpretation, and any of the matters herein released, shall be subject to binding arbitration as described in Section 9(c) of the Employment Agreement.

10. **No Representations.** Each Party represents that it has had the opportunity to consult with an attorney, and has carefully read and understands the scope and effect of the provisions of this Release. Neither Party has relied upon any representations or statements made by the other Party hereto which are not specifically set forth in this Release.

11. **No Oral Modification.** Any modification or amendment of this Release, or additional obligation assumed by either Party in connection with this Release, shall be effective only if placed in writing and signed by both Parties or their authorized representatives.

12. **Entire Agreement.** This Release, the Employment Agreement, the Indemnification Agreement, the Deferred Compensation Plan, the Benefit Plans, the Confidentiality Agreement and the Stock Agreements represent the entire agreement and understanding between the Company and Employee concerning the subject matter of this Release and Employee's relationship with the Company, and supersede and replace any and all prior agreements and understandings between the Parties concerning the subject matter of this Release and Employee's relationship with the Company.

13. **Governing Law.** This Release shall be governed by the laws of the State of Oregon, without regard for choice of law provisions.

14. **Effective Date. T**his Release is only effective after it has been signed by both parties and after eight (8) days have passed following the date Employee signed the Agreement without Employee revoking this Agreement (the "Effective Date").

15. **Voluntary Execution of Release.** This Release is executed voluntarily and with the full intent of releasing all claims, and without any duress or undue influence by any of the Parties. The Parties acknowledge that:

(a) They have read this Release;

(b) They have been represented in the preparation, negotiation, and execution of this Release by legal counsel of their own choice or that they have voluntarily declined to seek such counsel;

(c) They understand the terms and consequences of this Release and of the releases it contains; and

(d) They are fully aware of the legal and binding effect of this Release.

IN WITNESS WHEREOF, each of the Parties has executed this Release, in the case of the Company by a duly authorized officer, as of the day and year written below.

COMPANY:

LATTICE SEMICONDUCTOR CORPORATION

By: ________________________ Date: ________________________

Title: ________________________

EMPLOYEE:

______________________________ Date: ______________________

Martin R. Baker

EMPLOYMENT AGREEMENT

THIS AGREEMENT is entered into by and between Stephen M. Donovan (the "Executive") and **LATTICE SEMICONDUCTOR CORPORATION**, a Delaware corporation (the "Company") as of November 1, 2005 (the "Effective Date").

1. **Duties and Scope of Employment**.

(a) **Position**. For the term of his employment under this Agreement ("Employment"), the Executive will serve as the Corporate Vice President, Sales ("CVP-S"). The Executive shall report directly to the Company's Chief Executive Officer (the "CEO") or to an executive officer designated by the CEO. Executive will render such business and professional services in the performance of his duties, consistent with the Executive's position within the Company, as will reasonably be assigned to him by the CEO or, if applicable, such executive officer designated by the CEO.

(b) **Obligations**. The Executive shall have such duties, authority and responsibilities that are commensurate with being an executive officer. During the term of his Employment, the Executive will devote Executive's full business efforts and time to the Company. For the duration of his Employment, Executive agrees not to actively engage in any other employment, occupation, or consulting activity for any direct or indirect remuneration without the prior approval of the Board of Directors (the "Board") (which approval will not be unreasonably withheld); provided, however, that Executive may, without the approval of the Board, serve in any capacity with any civic, educational, or charitable organization, provided such services do not interfere with Executive's obligations to the Company. Executive shall perform his duties primarily at the Company's corporate facility in Hillsboro, Oregon.

(c) **Effective Date**. The Executive shall commence full-time Employment as CVP-S under this Agreement on the Effective Date.

2. **Cash and Incentive Compensation**.

(a) **Salary**. As of July 3, 2005 and thereafter, the Company shall pay Executive as compensation for his services a base salary at a gross annual rate of not less than $227,115 (such annual salary, as is then in effect, to be referred to herein as "Base Salary"). The Base Salary will be paid periodically in accordance with the Company's normal payroll practices and be subject to the usual, required withholdings, provided, however, that Executive shall receive pro-rata payments of Base Salary no less frequently than once per month. Executive's Base Salary will be subject to review by the Compensation Committee of the Board (the "Committee") not less than annually, and adjustments will be made in the discretion of the Committee.

(b) **Incentive Bonuses**. For the Company's 2005 fiscal year (which ends on December 31, 2005) the Executive shall be eligible to receive an annual fiscal year incentive bonus of up to $40,000 (the "2005 Bonus"). 50% of the 2005 Bonus (the "First Half-2005 Bonus") shall be earned on December 30, 2005 if Executive is an employee of the Company on such date. The remaining 50% of the 2005 Bonus shall be earned based on the achievement of performance objectives that are mutually agreed upon in writing by the Committee and Executive. The earned portion of the 2005 Bonus shall be paid to Executive in cash no later than 45 days after the end of the Company's 2005 fiscal year.

For Company's fiscal years 2006 and beyond, Executive shall be a participant in an Executive Bonus Plan that shall be established by the Company (the "EBP"). Under the EBP, Executive shall be eligible to be considered for an annual fiscal year incentive bonus of 30% of Executive's Base Salary as of the beginning of such fiscal year or such higher figure that the Committee may select (such annual amount is the "Target Bonus"). The Target Bonus shall be awarded based upon the achievement of specific milestones that will be mutually agreed upon by the Committee and Executive no later than 45 days after the start of each fiscal year (the "Target Bonus Milestones"). For superior achievement of the Target Bonus Milestones, Executive may earn a maximum annual fiscal year incentive bonus of up to 250% of Executive's Target Bonus. Cash payment for each fiscal year's Target Bonus actually earned shall be made to Executive no later than 45 days after the end of the applicable fiscal year.

(c) **Terms of Company Compensatory Equity Awards**. Executive shall be eligible for grants of options to purchase shares of the Company's common stock or other Company equity (any prior or future compensatory equity grants to Executive shall be collectively referred to herein as "Compensatory Equity") at times and in such amounts as determined by the Committee. All future grants of Compensatory Equity (and the issuance of any underlying shares) to Executive shall be: (i) issued pursuant to an applicable stockholder-approved plan and (ii) issued pursuant to an effective registration statement filed with the Securities and Exchange Commission under the Securities Act of 1933 as amended. Accelerated vesting of Compensatory Equity may occur: (x) pursuant to the terms of this Agreement and in addition (y) pursuant to the terms of the Plan and any applicable Compensatory Equity agreement. Executive may elect to establish a trading plan in accordance with Rule 10b5-1 of the Securities Exchange Act of 1934 for any of his Compensatory Equity shares, provided, however, that such trading plan must comply with all of the requirements for the safe harbor under Rule 10b5-1 and must be either (i) approved by the Board (such approval not to be unreasonably withheld) or (ii) approved in accordance with any Rule 10b5-1 Trading Plan Policy the Company may subsequently implement.

(d) **Service Definition**. For purposes of this Agreement and Executive's Compensatory Equity, "Service" shall mean service by the Executive as an employee and/or consultant of the Company (or any subsidiary or parent or affiliated entity of the Company) and/or service by the Executive as a member of the Board.

3. **Vacation and Employee Benefits**. During the term of his Employment, the Executive shall accrue paid vacation annually in accordance with the Company's standard vacation policy. During the term of his Employment, the Executive shall be eligible to participate in any employee benefit plans or arrangements maintained by the Company on no less

favorable terms than for other Company executives, subject in each case to the generally applicable terms and conditions of the plan or arrangement in question and to the determinations of any person or committee administering such plan or arrangement.

4. **Business Expenses**. During the term of his Employment, the Executive shall be authorized to incur necessary and reasonable travel, entertainment and other business expenses in connection with his duties hereunder. The Company shall promptly reimburse the Executive for such expenses upon presentation of appropriate supporting documentation, all in accordance with the Company's generally applicable policies. The Company shall also timely pay (or continue to timely pay, as applicable) for all of Executive's home telecommunications phone and facsimile lines and reimburse Executive for his actual mobile phone costs on a monthly basis (not to exceed $200 per monthly bill).

5. **Term of Employment**.

(a) **Basic Rule**. The Company may terminate the Executive's Employment with or without Cause, by giving the Executive 30 days advance notice in writing. The Executive may terminate his Employment by giving the Company 30 days advance notice in writing. The Executive's Employment shall terminate automatically in the event of his death.

(b) **Employment at Will**. The Executive's Employment with the Company shall be "at will," meaning that either the Executive or the Company shall be entitled to terminate the Executive's employment at any time and for any reason, with or without Cause. This Agreement shall constitute the full and complete agreement between the Executive and the Company on the "at will" nature of the Executive's Employment, which may only be changed in an express written agreement signed by the Executive and a member of the Board.

(c) **Rights Upon Termination**. Upon the termination of the Executive's Employment, the Executive shall be entitled to the compensation, benefits and reimbursements described in this Agreement for the period ending as of the effective date of the termination (the "Termination Date"). Upon termination of Executive's Employment for any reason, the Executive shall receive the following payments on the Termination Date: (i) all unpaid salary and unpaid vacation accrued through the Termination Date, (ii) any unpaid, but earned and accrued incentive bonus for any completed applicable bonus determination period under the EBP (whether paid quarterly, annually or as might otherwise be established under the EBP) which has not yet been paid on the Termination Date and (iii) any unreimbursed business expenses. Executive may also be eligible for other post-Employment payments and benefits as provided in this Agreement.

6. **Termination Benefits**.

(a) **Severance Pay**. If there is an Involuntary Termination (as defined below) of Executive's Employment, then the Company shall pay the Executive an amount equal to 1.0 times Executive's then Base Salary, plus up to 1.0 times Executive's then Target Bonus amount (adjusted pro rata on a monthly basis depending upon the month in which the Involuntary Termination may occur) (collectively in the aggregate, the "Cash Severance"). In addition, if not

previously paid to Executive, he shall also receive the First Half-2005 Bonus. Such Cash Severance (and First Half-2005 Bonus if applicable) shall be made in a single lump sum cash payment to Executive on the effective date of the separation agreement referenced in Section 8(a). Executive shall also be entitled to receive the benefits provided in Sections 6(b) and 6(c) and, if applicable, 6(d).

(b) **Health Insurance**. If Subsection (a) above applies, and if Executive elects to continue health insurance coverage under the Consolidated Omnibus Budget Reconciliation Act of 1985 ("COBRA") following the termination of his Employment, then the Company shall pay Executive's monthly premium under COBRA until the earliest of (i) twelve months after the Termination Date or (ii) the date when Executive commences receiving substantially equivalent health insurance coverage in connection with new employment.

(c) **Equity Vesting**. If Subsection (a) above applies, then Executive will be vested only in that number of shares of Company common stock under all of Executive's outstanding Compensatory Equity as are actually vested as of the Termination Date according to the terms of such Compensatory Equity arrangements.

(d) **Effect of Change in Control**. If the Company is subject to a Change in Control (as defined below) and if there is an Involuntary Termination of Executive's Employment in connection with such Change in Control (it will automatically be deemed to be in connection with the Change in Control if there is an Involuntary Termination during the period commencing immediately prior to the Change in Control and extending through the date that is 24 months after the Change in Control): (x) Executive shall immediately vest in (and the Company's right to repurchase, if applicable, shall lapse immediately as to) all of Executive's Compensatory Equity, (y) the amount of the Cash Severance in Section 6(a) shall be increased such that while the Executive shall still receive 1.0 times Base Salary, he shall receive in addition 1.0 times Target Bonus (with no pro ration), and (z) the duration of COBRA coverage in Section 6(b) shall continue to be for 12 months. The Company's obligation to continue to provide Section 6(b) benefits shall not be relieved merely because the legally required minimum period for providing COBRA continuation coverage is for a shorter period than 12 months.

(e) **Excise Tax Gross-Up**. In the event that the benefits provided for in this Agreement (i) constitute "parachute payments" within the meaning of Section 280G of the Code and (ii) but for this Subsection (e), would be subject to the excise tax imposed by Section 4999 of the Code, then the Executive's benefits under this Agreement shall be payable either (1) in full, or (2) as to such lesser amount which would result in no portion of the such benefits being subject to excise tax under Section 4999 of the Code, whichever of the foregoing amounts, taking into account the applicable federal, state and local income taxes and the excise tax imposed by Section 4999, results in the receipt by the Executive on an after-tax basis, of the greatest amount of benefits under this Agreement, notwithstanding that all or some portion of such benefits may be taxable under Section 4999 of the Code. Unless Executive and the Company agree otherwise in writing, the determination of Executive's excise tax liability, if any, and the amount, if any, required to be paid under this Subsection (e) will be made in writing by the independent auditors who are primarily used by the Company immediately prior to the Change of Control (the "Accountants"). For purposes of making the calculations required by this

Subsection (e), the Accountants may make reasonable assumptions and approximations concerning applicable taxes and may rely on reasonable, good faith interpretations concerning the application of Sections 280G and 4999 of the Code. Executive and the Company agree to furnish such information and documents as the Accountants may reasonably request in order to make a determination under this Subsection (e). The Company will bear all costs the Accountants may reasonably incur in connection with any calculations contemplated by this Subsection (e).

(f) **Change in Control Definition**. For purposes of this Agreement, "Change in Control" shall mean the occurrence of any of the following events: (i) the consummation of a merger or consolidation of the Company with or into another entity or any other corporate reorganization, if persons who were not stockholders of the Company immediately prior to such merger, consolidation or other reorganization own immediately after such merger, consolidation or other reorganization 50% or more of the voting power of the outstanding securities of each of (A) the continuing or surviving entity and (B) any direct or indirect parent corporation of such continuing or surviving entity, (ii) the sale, transfer or other disposition of all or substantially all of the Company's assets, (iii) the approval by the stockholders of the Company, or if stockholder approval is not required, approval by the Board, of a plan of complete liquidation or dissolution of the Company or (iv) solely with respect to determining the treatment of Compensatory Equity under the terms of this Agreement, the terms of any applicable definition provided by the Plan or other Company equity incentive plan or arrangement. A transaction shall not constitute a Change in Control if its sole purpose is to change the state of the Company's incorporation or to create a holding company that will be owned in substantially the same proportions by the persons who held the Company's securities immediately before such transaction.

(g) **Cause Definition**. For purposes of this Agreement, "Cause" shall mean (i) Executive's material breach of this Agreement that is not corrected within a 30 day correction period that begins upon delivery to Executive of a written demand from the Board that describes the basis for the Board's belief that Executive has materially breached this Agreement; (ii) any willful act of fraud or dishonesty that causes material damage to the Company; (iii) any willful violation of the Company's insider trading policy; (iv) any willful violation of the Company's conflict of interest policies; (v) any willful unauthorized use or disclosure of trade secrets or other confidential information; or (vi) Executive's conviction of a felony.

The foregoing shall not be deemed an exclusive list of all acts or omissions that the Company may consider as grounds for the termination of Executive's Employment, but it is an exclusive list of the acts or omissions that shall be considered "Cause" for the termination of Executive's Employment by the Company.

(h) **Good Reason Definition**. For all purposes under this Agreement, "Good Reason" shall mean the occurrence of any of the following, without Executive's express written consent: (i) a substantial reduction of Executive's duties or responsibilities; (ii) a reduction in Executive's Base Salary or Target Bonus other than a one-time reduction (not exceeding 10% in the aggregate) that also is applied to substantially all other executive officers of the Company on the CEO's written recommendation or written approval if Executive's reduction is substantially proportionate to, or no greater than, the reduction applied to

substantially all other executive officers; (iii) the Company's material breach of this Agreement including without limitation the failure to timely provide Executive the cash compensation, equity compensation and/or employee benefits specified under this Agreement; or (iv) the Company requiring Executive to relocate his principal place of business or the Company relocating its headquarters, in either case to a facility or location outside of a 30 mile radius from Executive's current principal place of employment; provided, however, that Executive will only have Good Reason if the event or circumstances constituting Good Reason specified in any of the preceding clauses is not cured or otherwise remedied to the Executive's satisfaction within 30 days after Executive gives written notice to the Board.

(i) **Involuntary Termination Definition**. For all purposes under this Agreement, "Involuntary Termination" shall mean any of the following that occur without Executive's prior written consent: (i) termination of Executive's Employment by the Company without Cause, or (ii) Executive's resignation of Employment for Good Reason.

7. **Successors**.

(a) **Company's Successors**. This Agreement shall be binding upon any successor (whether direct or indirect and whether by purchase, lease, merger, consolidation, liquidation or otherwise) to all or substantially all of the Company's business and/or assets. For all purposes under this Agreement, the term "Company" shall include any successor to the Company's business and/or assets which becomes bound by this Agreement.

(b) **Executive's Successors**. This Agreement and all rights of the Executive hereunder shall inure to the benefit of, and be enforceable by, the Executive's personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees.

8. **Conditions to Receipt of Severance; No Duty to Mitigate**.

(a) **Separation Agreement and Release of Claims**. The receipt of any severance benefits pursuant to Section 6 will be subject to Executive signing and not revoking a separation agreement and release of claims in substantially the form attached hereto as Exhibit A, but with any appropriate modifications, reflecting changes in applicable law, as is necessary or appropriate to provide the Company with the protection it would have if the release were executed as of the Start Date. No severance benefits will be paid or provided until the separation agreement and release agreement becomes effective.

(b) **Non-solicitation and Non-competition**. The receipt of any severance benefits will be subject to the Executive agreeing that during Employment and for the 12 month period after the Termination Date (the "Continuance Period"), the Executive will not (i) solicit any employee of the Company for employment other than at the Company, or (ii) directly or indirectly engage in, have any ownership interest in or participate in any entity that as of the Termination Date, directly competes with the Company in any substantial business of the Company or any business reasonably expected to become a substantial business (i.e., at least 5% of the Company's gross revenues) of the Company during the Continuance Period.

Notwithstanding the foregoing, the provisions of Section 8(b)(ii) shall not be applicable to Executive on or after a Change in Control. The Executive's passive ownership of not more than 1% of any publicly traded company and/or 5% ownership of any privately held company will not constitute a breach of this Subsection (b).

(c) **Non-disparagement**. During Employment and the Continuance Period, the Executive will not knowingly publicly disparage, criticize, or otherwise make any derogatory statements regarding the Company, its directors, or its officers. The Company's then and future directors will not knowingly publicly disparage, criticize, or otherwise make any derogatory statements regarding the Executive during his Employment or the Continuance Period. The Company will also instruct its officers to not knowingly publicly disparage, criticize, or otherwise make any derogatory statements regarding the Executive during his Employment or the Continuance Period. Notwithstanding the foregoing, nothing contained in this Agreement will be deemed to restrict the Executive, the Company or any of the Company's current or former officers and/or directors from providing information to any governmental or regulatory agency (or in any way limit the content of such information) to the extent they are requested or required to provide such information pursuant to any applicable law or regulation.

(d) **No Duty to Mitigate**. No payments or benefits provided to Executive (except as expressly provided in Section 6(b)) shall be subject to mitigation or offset.

9. **Miscellaneous Provisions**.

(a) **Indemnification**. The Company shall indemnify Executive to the maximum extent permitted by any applicable indemnification agreement, applicable law and the Company's bylaws with respect to Executive's Service (including timely advancing and/or reimbursing costs as incurred by Executive) and the Executive shall also be covered under a directors and officers liability insurance policy(ies) paid for by the Company.

(b) **Notice**. Notices and all other communications contemplated by this Agreement shall be in writing and shall be deemed to have been duly given when personally delivered or when mailed by overnight courier, U.S. registered or certified mail, return receipt requested and postage prepaid. In the case of the Executive, mailed notices shall be addressed to him at the home address that he most recently communicated to the Company in writing. In the case of the Company, mailed notices shall be addressed to its corporate headquarters, and all notices shall be directed to the attention of its CEO.

(c) **Arbitration**. The Company and Executive agree that any and all disputes arising out of the terms of this Agreement, the Executive's Employment, Executive's Service, or Executive's compensation and benefits, their interpretation and any of the matters herein released, will be subject to binding arbitration in Portland, Oregon before the American Arbitration Association under its National Rules for the Resolution of Employment Disputes. The Company and the Executive agree that the prevailing party in any arbitration will be entitled to injunctive relief in any court of competent jurisdiction to enforce the arbitration award. **The Company and the Executive hereby agree to waive their right to have any dispute between them resolved in a court of law by a judge or jury.** This Subsection (c) will not prevent either

party from seeking injunctive relief (or any other provisional remedy) from any court having jurisdiction over the Company or the Executive and the subject matter of their dispute relating to Executive's obligations under this Agreement. The Company shall be responsible for timely paying for all arbitration and legal fees incurred by both parties as such costs are incurred, provided, however that if (i) the Executive initiates the arbitration proceeding and (ii) the Company prevails in such arbitration that was initiated by the Executive, then each side shall be responsible for paying for their own costs.

(d) **Modifications and Waivers**. No provision of this Agreement shall be modified, waived or discharged unless the modification, waiver or discharge is agreed to in writing and signed by the Executive and by an authorized officer of the Company (other than the Executive). No waiver by either party of any breach of, or of compliance with, any condition or provision of this Agreement by the other party shall be considered a waiver of any other condition or provision or of the same condition or provision at another time.

(e) **Whole Agreement**. This Agreement contains the entire understanding of the parties with respect to the subject matter hereof and supersedes any other agreements, representations or understandings (whether oral or written and whether express or implied) with respect to the subject matter hereof. In the event of any conflict in terms between this Agreement and/or the Plan and/or any agreement executed by and between Executive and the Company, the terms of this Agreement shall prevail and govern.

(f) **Legal Fees**. Each party shall pay its own legal fees and expenses incurred in connection with the preparation and execution of this Agreement.

(g) **Withholding Taxes**. All payments made under this Agreement shall be subject to reduction to reflect taxes or other charges required to be withheld by law.

(h) **Choice of Law**. The validity, interpretation, construction and performance of this Agreement shall be governed by the laws of the State of Oregon (except their provisions governing the choice of law).

(i) **Severability**. The invalidity or unenforceability of any provision or provisions of this Agreement shall not affect the validity or enforceability of any other provision hereof, which shall remain in full force and effect.

(j) **Code Section 409A**. The Company and the Executive agree to work together in good faith to consider amendments to this Agreement necessary or appropriate to avoid imposition of any additional tax or income recognition prior to actual payment to Executive under Code Section 409A and any temporary or final Treasury Regulations and Internal Revenue Service guidance thereunder.

(k) **No Assignment**. This Agreement and all rights and obligations of the Executive hereunder are personal to the Executive and may not be transferred or assigned by the Executive at any time. The Company may assign its rights under this Agreement to any

entity that expressly in writing assumes the Company's obligations hereunder in connection with any sale or transfer of all or substantially all of the Company's assets to such entity.

(l) **Counterparts**. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

IN WITNESS WHEREOF, each of the parties has executed this Agreement, in the case of the Company by its duly authorized officer, as of the Start Date.

/s/ Stephen M. Donovan
Stephen M. Donovan

LATTICE SEMICONDUCTOR CORPORATION

By /s/ Stephen A. Skaggs

Title: President & CEO

EXHIBIT A

GENERAL RELEASE

RECITALS

This Separation Agreement and Release ("Agreement") is made by and between Stephen M. Donovan ("Employee") and Lattice Semiconductor Corporation (the "Company") (jointly referred to as the "Parties"):

WHEREAS, Employee was employed by the Company;

WHEREAS, the Company and Employee entered into an Employment Agreement dated November 1, 2005 (the "Employment Agreement");

WHEREAS, the Parties agree that Employee's employment with the Company will terminate on (the "Termination Date");

WHEREAS, the Company and Employee entered into an Employee Agreement dated [ ] regarding Confidential Information (the "Confidentiality Agreement");

WHEREAS, the Company and Employee entered into an Indemnification Agreement, dated [ ], regarding Employee's rights to indemnification (the "Indemnification Agreement");

WHEREAS, Employee is a participant, or is eligible to participate, in the Company's Executive Deferred Compensation Plan dated [ ], as amended, regarding Employee's rights to receive deferred compensation (the "Deferred Compensation Plan");

WHEREAS, the Company and Employee entered into Stock Option Agreements dated [ ] granting Employee the option to purchase shares of the Company's common stock subject to the terms and conditions of the Company's Stock Option Plan(s) and the Stock Option Agreements (the "Stock Agreements");

WHEREAS, the Parties wish to resolve any and all disputes, claims, complaints, grievances, charges, actions, petitions and demands that Employee may have against the Company as defined herein, arising out of, or related to, Employee's employment with, or separation from, the Company;

NOW THEREFORE, in consideration of the promises made herein, the Parties hereby agree as follows:

COVENANTS

1. Consideration.

(a) Pursuant to Section 8(a) of the Employment Agreement, Employee's receipt of severance is subject to Employee executing and not revoking this Release. In consideration of Employee executing and not revoking this Release, the Company agrees to

pay (or provide, as applicable) Employee a cash payment of $ on the Effective Date and also the benefits specified in the Employment Agreement. Employee acknowledges that such cash payment and the provision of such benefits will be in full satisfaction of the payments and obligations provided under the Employment Agreement and he will not be entitled to any additional salary, wages, bonuses, accrued vacation, housing allowances, relocation costs, interest, severance, stock, stock options, outplacement costs, fees, commissions or any other benefits and compensation, except as provided in any Company employee welfare or pension benefit plans as defined by the Employee Retirement Income Security Act of 1974, as amended ("ERISA") (such plans, the "Benefit Plans"), this Agreement, the Indemnification Agreement, the Deferred Compensation Plan and/or the Stock Agreements.

(b) Stock. Employee acknowledges that as of the Termination Date, and after taking into account any accelerated vesting provided by the Employment Agreement or Stock Agreements, he will then hold vested stock options to acquire [ ] shares of Company common stock and no more. The exercise of any stock options shall continue to be subject to the terms and conditions of the Stock Agreements and the Employment Agreement.

(c) Benefits. Employee's health insurance benefits will cease on the last day of the month of the Termination Date, subject to Employee's right to continue his health insurance as provided in the Employment Agreement (with such premiums to be paid by the Company as provided in the Employment Agreement). Subject to the Employment Agreement, the Deferred Compensation Plan, the Indemnification Agreement, the Stock Agreements and/or the Benefit Plans, Employee's participation in all other benefits and incidents of employment (including, but not limited to, the accrual of vacation and paid time off, and the vesting of stock options) will cease on the Termination Date.

2. Confidential Information. Employee shall continue to comply with the terms and conditions of the Confidentiality Agreement, and maintain the confidentiality of all of the Company's confidential and proprietary information. Employee also shall return to the Company all of the Company's property, including all confidential and proprietary information, in Employee's possession, on or before the Effective Date.

3. Release of Claims. Employee agrees that the foregoing consideration represents settlement in full of all outstanding obligations owed to Employee by the Company. Employee, on his own behalf and on behalf of his respective heirs, family members, executors, agents, and assigns, hereby fully and forever releases the Company and its current and former: officers, directors, employees, agents, investors, attorneys, shareholders, administrators, affiliates, divisions, subsidiaries, predecessor and successor corporations and assigns (the "Releasees") from, and agrees not to sue concerning, any claim, duty, obligation or cause of action relating to any matters of any kind arising out of or relating to his employment by the Company (except as provided in the Employment Agreement), or his service as an officer of the Company and/or a director of the Company, whether presently known or unknown, suspected or unsuspected, that Employee may possess arising from any omissions, acts or facts that have occurred up until and including the Effective Date, excluding the "Excluded Claims" (as defined below) and including, without limitation:

(a) any and all claims relating to or arising from Employee's employment with the Company, or the termination of that employment;

(b) any and all claims relating to, or arising from, Employee's right to purchase, or actual purchase of, shares of Company stock, including, but not limited to, any claims for fraud, misrepresentation, breach of fiduciary duty, breach of duty under applicable state corporate law, and securities fraud under any state or federal law;

(c) any and all claims under the law of any jurisdiction, including, but not limited to, wrongful discharge of employment; constructive discharge from employment; termination in violation of public policy; discrimination; breach of contract, both express and implied; breach of a covenant of good faith and fair dealing, both express and implied; promissory estoppel; negligent or intentional infliction of emotional distress; negligent or intentional misrepresentation; negligent or intentional interference with contract or prospective economic advantage; unfair business practices; defamation; libel; slander; negligence; personal injury; assault; battery; invasion of privacy; false imprisonment; and conversion;

(d) any and all claims for violation of any federal, state or municipal statute, including, but not limited to, Title VII of the Civil Rights Act of 1964; the Civil Rights Act of 1991; the Age Discrimination in Employment Act of 1967; the Americans with Disabilities Act of 1990; the Fair Labor Standards Act; ERISA; the Worker Adjustment and Retraining Notification Act; the Older Workers Benefit Protection Act; the Family and Medical Leave Act; and the Fair Credit Reporting Act;

(e) any and all claims for violation of the federal, or any state, constitution;

(f) any and all claims arising out of any other laws and regulations relating to employment or employment discrimination; and

(g) any and all claims for attorney fees and costs.

For purposes of this Agreement, the "Excluded Claims" shall include any claims pursuant to the Benefit Plans, the Deferred Compensation Plan, the Indemnification Agreement, the right to receive an excise tax gross-up under Section 6(e) of the Employment Agreement, the non-disparagement clause of Section 8(c) of the Employment Agreement, the right to indemnification under Section 9(a) of the Employment Agreement, the Code Section 409A clause of Section 9(j) of the Employment Agreement, and any right to exercise stock options pursuant to the relevant provisions of the Stock Agreements.

4. Acknowledgement of Waiver of Claims Under ADEA. Employee acknowledges that he is waiving and releasing any rights he may have under the Age Discrimination in Employment Act of 1967 ("ADEA") and that this waiver and release is knowing and voluntary. Employee and the Company agree that this waiver and release does not apply to any rights or claims that may arise under the ADEA after the Effective Date. Employee acknowledges that the consideration given for this waiver and release Agreement is in addition to

anything of value to which Employee was already entitled. Employee further acknowledges that he has been advised by this writing that:

(a) he should consult with an attorney prior to executing this Release;

(b) he has up to twenty-one (21) days within which to consider this Release;

(c) he has seven (7) days following his execution of this Release to revoke this Release;

(d) this ADEA waiver shall not be effective until the revocation period has expired; and,

(e) nothing in this Release prevents or precludes Employee from challenging or seeking a determination in good faith of the validity of this waiver under the ADEA, nor does it impose any condition precedent, penalties or costs for doing so, unless specifically authorized by federal law.

5. **Unknown Claims.** The Parties represent that they are not aware of any claim by either of them other than the claims that are released by this Release. Employee acknowledges that he has been advised by legal counsel and are familiar with the principle that a general release does not extend to claims which the releasor does not know or suspect to exist in his favor at the time of executing the Release, which if known by him must have materially affected his settlement with the Releasee. Employee, being aware of said principle, agree to expressly waive any rights Employee may have to that effect, as well as under any other statute or common law principles of similar effect.

6. **Application for Employment.** Employee understands and agrees that, as a condition of this Release, he shall not be entitled to any employment with the Company, its subsidiaries, or any successor, and he hereby waives any alleged right of employment or re-employment with the Company, its subsidiaries or related companies, or any successor.

7. **No Cooperation.** Employee agrees that he will not knowingly counsel or assist any attorneys or their clients in the presentation or prosecution of any disputes, differences, grievances, claims, charges, or complaints by any third party against any of the Releasees, unless requested by a governmental agency or unless under a subpoena or other court order to do so. Employee agrees both to immediately notify the Company upon receipt of any such subpoena or court order, and to furnish, within three (3) business days of its receipt, a copy of such subpoena or court order to the Company. If otherwise approached by anyone for counsel or assistance in the presentation or prosecution of any disputes, differences, grievances, claims, charges, or complaints against any of the Releasees, Employee shall state no more than that he cannot provide counsel or assistance.

8. **Costs.** The Parties shall each bear their own costs, expert fees, attorney fees and other fees incurred in connection with the preparation of this Release.

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9. **Arbitration.** The Parties agree that any and all disputes arising out of, or relating to, the terms of this Release, their interpretation, and any of the matters herein released, shall be subject to binding arbitration as described in Section 9(c) of the Employment Agreement.

10. **No Representations.** Each Party represents that it has had the opportunity to consult with an attorney, and has carefully read and understands the scope and effect of the provisions of this Release. Neither Party has relied upon any representations or statements made by the other Party hereto which are not specifically set forth in this Release.

11. **No Oral Modification.** Any modification or amendment of this Release, or additional obligation assumed by either Party in connection with this Release, shall be effective only if placed in writing and signed by both Parties or their authorized representatives.

12. **Entire Agreement.** This Release, the Employment Agreement, the Indemnification Agreement, the Deferred Compensation Plan, the Benefit Plans, the Confidentiality Agreement and the Stock Agreements represent the entire agreement and understanding between the Company and Employee concerning the subject matter of this Release and Employee's relationship with the Company, and supersede and replace any and all prior agreements and understandings between the Parties concerning the subject matter of this Release and Employee's relationship with the Company.

13. **Governing Law.** This Release shall be governed by the laws of the State of Oregon, without regard for choice of law provisions.

14. **Effective Date.** **T**his Release is only effective after it has been signed by both parties and after eight (8) days have passed following the date Employee signed the Agreement without Employee revoking this Agreement (the "Effective Date").

15. **Voluntary Execution of Release.** This Release is executed voluntarily and with the full intent of releasing all claims, and without any duress or undue influence by any of the Parties. The Parties acknowledge that:

(a) They have read this Release;

(b) They have been represented in the preparation, negotiation, and execution of this Release by legal counsel of their own choice or that they have voluntarily declined to seek such counsel;

(c) They understand the terms and consequences of this Release and of the releases it contains; and

(d) They are fully aware of the legal and binding effect of this Release.

IN WITNESS WHEREOF, each of the Parties has executed this Release, in the case of the Company by a duly authorized officer, as of the day and year written below.

COMPANY:

LATTICE SEMICONDUCTOR CORPORATION

By: ____________________________ Date: ____________________________

Title: ____________________________

EMPLOYEE:

______________________________ Date: ______________________________

Stephen M. Donovan

Exhibit 10.4

2005 EXECUTIVE BONUS PLAN

Eligibility:	Eligible employees are all officers of the company with the title of vice president or above.
Target Bonus:	Target bonuses for each eligible employee will be determined by the Compensation Committee based on input from the Chief Executive Officer.
Actual Bonus:	A bonus payout ratio will be calculated, based on the Company's performance to specific objectives, using the methodology described in this plan. The target bonus of each employee will be multiplied by the bonus payout ratio to calculate the actual bonus.
Payments:	Bonuses will be payable 45 days after the end of the fiscal year.

Company Objectives:

Bonuses will be based on performance to the following five objectives. Specific criteria under each objective will be determined by the Compensation Committee based on input from the Chief Executive Officer.

A. Product Development
B. Technology Qualification
C. New Product Design-Ins
D. New Product Revenue
E. Total Revenue

Calculation of Bonus Payout Ratio:

Performance to each objective will be determined and a weighting factor will be calculated for each objective. The weighting factors will be determined by the Compensation Committee based on input from the Chief Executive Officer. The weighting factors for each objective will then be added. Bonus payout ratios will then be calculated as follows:

- Group A: Bonus Payout Ratio = 50% + Sum of Weighting Factors

- Group B: Bonus Payout Ratio = Sum of Weighting Factors

Bonus Payment Approval:

Performance to objectives, weighting factors and individual bonuses will be calculated by the Company and presented during the February 2006 Compensation Committee meeting. All individual bonuses will be approved by the Compensation Committee prior to employee distribution.

Exhibit 31.1

CERTIFICATION

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 report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

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

(a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

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

(a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 4, 2005

/s/ Stephen A. Skaggs

Stephen A. Skaggs
President and Chief Executive Officer

Exhibit 31.2

CERTIFICATION

I, Jan Johannessen, certify that:

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

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

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

(a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

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

(a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 4, 2005

/s/Jan Johannessen

Jan Johannessen
Senior Vice President and Chief Financial Officer

Exhibit 32.1

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

I, 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 on Form 10-Q of Lattice Semiconductor Corporation for the quarter ended October 1, 2005 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:	President and Chief Executive Officer

I, Jan Johannessen, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report on Form 10-Q of Lattice Semiconductor Corporation for the quarter ended October 1, 2005 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Quarterly Report fairly presents, in all material respects, the financial condition and results of operations of Lattice Semiconductor Corporation.

By: /s/ Jan Johannessen

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