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 April 3, 2004

OR

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

For the transition period from to

Commission file number 000-18032

LATTICE SEMICONDUCTOR CORPORATION

(Exact name of Registrant as specified in its charter)

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

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

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

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

At May 6, 2004, there were 113,125,757 shares of the Registrant's common stock, $.01 par value, outstanding.

The information contained in this Form 10-Q is as of May 12, 2004. This Form 10-Q should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2003.

LATTICE SEMICONDUCTOR CORPORATION

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Forward-Looking Statements

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

Forward-looking statements involve estimates, assumptions, risks and uncertainties that could cause actual results to differ materially from those expressed in them. Among the key factors that could cause our actual results to differ materially from the forward-looking statements are delay in product or technology development, change in economic conditions of the various markets we serve, lack of market acceptance or demand for our new products, dependencies on silicon wafer suppliers and semiconductor assemblers, the impact of competitive products and pricing, opportunities or acquisitions that we pursue, the availability and terms of financing, and the other risks that are described herein and that are otherwise described from time to time in our filings with the Securities and Exchange Commission, including but not limited to the items discussed in "Factors Affecting 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	
	March 31, 2004	March 31, 2003
Revenue	$ 59,071	$ 57,297
Costs and expenses:		
Cost of products sold	24,719	23,028
Research and development	22,259	21,832
Selling, general and administrative	13,087	12,483
Amortization of intangible assets (1)	18,654	21,114
Total costs and expenses	78,719	78,457
Loss from operations	(19,648)	(21,160)
Other income, net	3,107	1,491
Loss before benefit for income taxes	(16,541)	(19,669)
Benefit for income taxes	—	—
Net loss	$ (16,541)	$ (19,669)
Basic net loss per share	$ (0.15)	$ (0.18)
Diluted net loss per share	$ (0.15)	$ (0.18)
Shares used in per share calculations:		
Basic	112,627	111,390

Diluted	112,627	111,390

(1) Includes $806 and $3,270 of amortization of deferred stock compensation expense for the three months ended March 31, 2004 and March 31, 2003, respectively, attributable to Research and Development activities.

See Accompanying Notes to Condensed Consolidated Financial Statements

LATTICE SEMICONDUCTOR CORPORATION

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

	March 31, 2004 (unaudited)	December 31, 2003
Assets		
Current assets:		
Cash and cash equivalents	$ 41,603	$ 35,276
Short-term investments	256,945	242,474
Accounts receivable, net	26,013	26,796
Inventories	44,312	46,630
Other current assets	57,575	51,537
Total current assets	426,448	402,713
Foundry investments, advances and other assets	74,293	86,883
Property and equipment, net	51,313	53,800
Intangible assets, net	66,789	84,627
Goodwill	223,595	223,605
	$ 842,438	$ 851,628
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable and accrued expenses	$ 31,729	$ 28,500
Deferred income on sales to distributors	13,847	10,564
Income taxes payable	126	37
Total current liabilities	45,702	39,101
Zero Coupon Convertible Subordinated notes due in 2010	184,000	184,000
Other long-term liabilities	22,699	22,415
Commitments and contingencies	—	—
Stockholders' equity:		
Preferred stock, $.01 par value, 10,000,000 shares authorized; none issued or outstanding	—	—
Common stock, $.01 par value, 300,000,000 shares authorized, 113,115,579 and 113,047,874 shares issued and outstanding	1,131	1,130
Paid-in capital	587,598	586,834
Deferred stock compensation	(4,580)	(5,444)
Accumulated other comprehensive income	19,040	20,203
Retained earnings (deficit)	(13,152)	3,389
Total stockholders' equity	590,037	606,112
	$ 842,438	$ 851,628

See Accompanying Notes to Condensed Consolidated Financial Statements.

LATTICE SEMICONDUCTOR CORPORATION

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

	Three Months Ended	
	March 31, 2004	March 31, 2003
Cash flows from operating activities:		
Net loss	$ (16,541)	$ (19,669)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	24,499	26,545
Gain on sale of UMC shares	(2,536)	—
Gain on retirement of convertible notes	—	(2,923)
Changes in assets and liabilities:		
Accounts receivable	783	(4,277)
Inventories	2,318	4,365
Other current assets	(2,043)	(525)
Foundry investments, advances and other assets	218	(580)
Accounts payable and accrued expenses	3,274	3,574
Deferred income	3,283	1,953
Income taxes payable	89	(142)
Other liabilities	(313)	(375)
Total adjustments	29,572	27,615
Net cash provided by operating activities	13,031	7,946
Cash flows from investing activities:		
Proceeds from short-term investments	30,344	112,568
Purchase of short-term investments	(44,815)	(223,956)
Proceeds from sale of equity securities	9,250	—
Capital expenditures	(2,011)	(3,211)
Net cash used by investing activities	(7,232)	(114,599)
Cash flows from financing activities:		
Retirement of convertible debt	—	(29,570)
Net proceeds from issuance of common stock	528	802
Net cash (used in) provided by financing activities	528	(28,768)
Net Increase (decrease) in cash and cash equivalents	6,327	(135,421)
Beginning cash and cash equivalents	35,276	169,475
Ending cash and cash equivalents	$ 41,603	$ 34,054
Supplemental disclosures of non-cash investing and financing activities:		
Unrealized (loss) gain on (depreciation) appreciation of foundry investments included in other comprehensive income	$ 870	$ (5,034)

See Accompanying Notes to Condensed Consolidated Financial Statements.

LATTICE SEMICONDUCTOR CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1 - Basis of Presentation:

The accompanying consolidated financial statements are unaudited and have been prepared by Lattice Semiconductor Corporation (“the Company”) pursuant to the rules and regulations of the Securities and Exchange Commission and in our opinion include all adjustments, consisting only of normal recurring adjustments, necessary for the fair statement of results for the interim periods. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. These consolidated financial statements should be read in conjunction with our audited financial statements and notes thereto included in our annual report on Form 10-K for the year ended December 31, 2003.

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

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

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

Note 2 - Revenue Recognition:

Revenue from sales to OEM customers is recognized upon shipment provided that persuasive evidence of an arrangement exists, the price is fixed and 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 Income Per Share:

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

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

	Three months ended	
	Mar. 31, 2004	**Mar. 31, 2003**
Net loss	$ (16,541)	$ (19,669)
Shares used in basic net loss per share calculations	112,627	111,390
Dilutive effect of stock options and warrants	—	—
Shares used in diluted net loss per share	112,627	111,390
Basic net loss per share	$ (0.15)	$ (0.18)
Diluted net loss per share	$ (0.15)	$ (0.18)

Stock-Based Compensation

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

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

	Grants for quarter ended	
	Mar. 31, 2004	**Mar. 31, 2003**
Stock options:		
Expected volatility	53.8%	58.1%
Risk-free interest rate	2.3%	2.1%
Expected life from vesting date	1.6 years	1.6 years
Dividend yield	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 was $4.45 and $1.23 for the first quarters of 2004 and 2003, respectively. For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting period.

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

	Quarter ended Mar. 31, 2004	Quarter ended Mar. 31, 2003
Net loss, as reported	$ (16,541)	$ (19,669)
Add: Stock based employee compensation expense included in reported loss	806	3,270
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards	(5,033)	(7,431)
Pro forma net loss	$ (20,768)	$ (23,830)
Net loss per share:		
Basic-as reported	$ (0.15)	$ (0.18)
Basic- pro forma	$ (0.18)	$ (0.21)
Diluted-as reported	$ (0.15)	$ (0.18)
Diluted-pro forma	$ (0.18)	$ (0.21)

Note 4 - Inventories (in thousands):

	Mar. 31, 2004	Dec. 31, 2003
Work in progress	$ 31,137	$ 34,327
Finished goods	13,175	12,303
	$ 44,312	$ 46,630

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

	Common Stock	Paid-in Capital	Deferred Stock Comp.	Accumulated Other Comprehensive Income	Retained Earnings (Deficit)	Total
Balances, Dec. 31, 2003	$ 1,130	$ 586,834	$ (5,444)	$ 20,203	$ 3,389	$ 606,112
Common stock issued	1	822	—	—	—	823
Unrealized gain on equity securities (Note 9)	—	—	—	1,075	—	1,075
Recognized gain on sale of UMC stock (Note 9)				(2,219)		(2,219)
Deferred stock compensation	—	(58)	58	—	—	—
Amortization of deferred stock compensation	—	—	806	—	—	806
Translation adjustment	—	—	—	(19)	—	(19)
Net loss for the three-month period	—	—	—	—	(16,541)	(16,541)
Balances, Mar. 31, 2004	$ 1,131	$ 587,598	$ (4,580)	$ 19,040	$ (13,152)	$ 590,037

Total comprehensive loss for the first three-month period of 2004 was $17.7 million and substantially comprises a $16.5 million net loss from operations and a $1.1 million net gain related to equity investments.

Note 6 – Goodwill and Purchased Intangible Assets

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

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

March 31, 2004	Gross	Accumulated amortization	Net
Current technology	$ 273.6	$ (227.8)	$ 45.8

Core technology	7.3	(2.3)	5.0
Licenses	10.2	(3.2)	7.0
Non-compete agreements	14.3	(10.3)	4.0
Workforce	4.7	(1.5)	3.2
Backlog	1.4	(1.4)	—
Customer list	17.4	(16.7)	0.7
Patents and trademarks	26.8	(25.7)	1.1
Total	$ 355.7	$ (288.9)	$ 66.8

December 31, 2003	**Gross**	**Accumulated amortization**	**Net**
Current technology	$ 273.6	$ (214.4)	$ 59.2
Core technology	7.3	(1.9)	5.4
Licenses	10.2	(2.9)	7.3
Non-compete agreements	14.3	(9.2)	5.1
Workforce	4.7	(1.2)	3.5
Backlog	1.4	(1.4)	—
Customer list	17.4	(15.8)	1.6
Patents and trademarks	26.8	(24.3)	2.5
Total	$ 355.7	$ (271.1)	$ 84.6

The estimated future amortization expense of purchased intangible assets as of March 31, 2004 is as follows (in millions):

Fiscal Year:	**Amount**
2004 (remaining nine months)	$ 26.0
2005	14.4
2006	10.8
2007	9.8
2008	5.8
	$ 66.8

The estimated future amortization expense of deferred stock compensation attributable to Research and Development activities as of March 31, 2004 is approximately $2.6 million for the remainder of 2004 and approximately $1.9 million for 2005.

Note 7 - New Accounting Pronouncements:

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

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

In March 2004, the Emerging Issues Task Force finalized its consensus on EITF Issue 03-6, "Participating Securities and the Two-Class Method Under FASB Statement No. 128, Earnings Per Share" (EITF 03-6). EITF 03-6 clarifies what constitutes a participating security and requires the use of the two-class method for computing basic earnings per share when participating convertible securities exist. EITF 03-6 is effective for fiscal periods beginning after March 31, 2004. We are currently analyzing the impact of adoption of EITF 03-6 on our consolidated financial statements.

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

Note 8 - Legal Matters:

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

operations.

Note 9 – Foundry Investments:

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

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

As of March 31, 2004, we owned 81.7 million shares of UMC common stock of which approximately 23.3 million are restricted from sale for more than one year by the terms of our agreement with UMC. Under the terms of the

UMC agreement, if we sell any of these restricted shares, our rights to guaranteed wafer capacity at UMC may be reduced on a pro-rata basis based on the number of shares that we sell. If we sell over 10.1 million of these restricted shares, we may lose all of our rights to guaranteed wafer capacity at UMC.

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

The carrying value of our investment in UMC was $73.2 million and $81.1 million at March 31, 2004 and December 31, 2003, respectively, and this balance is classified as part of Other current assets ($35.8 million and $35.4 million at March 31, 2004 and December 31, 2003, respectively) and Foundry investments, advances and other assets. During the first quarter of 2004, we sold 10 million UMC shares for a gain of $2.6 million of which $2.2 million was already recorded as an unrealized gain in Accumulated Other Comprehensive Income. Also in the first quarter of 2004, we recorded a $0.9 million change in unrealized gain related the market value of our UMC shares. If we liquidate our UMC shares, it is likely that the amount of any future realized gain or loss will be different from the accounting gain or loss reported in prior periods**.** (See Note 12.)

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 sales by major geographic area were as follows (in thousands):

	Three Months Ended	
	Mar. 31, 2004	**Mar. 31, 2003**
United States	$ 19,695	$ 18,482
Export sales:		
Europe	14,197	17,409
Asia Pacific (other than Japan)	16,881	12,861
Japan	6,822	5,627
Other	1,476	2,918
	39,376	38,815
	$ 59,071	$ 57,297

Resale of product through two distributors accounted for 18% and 14% of revenue in the first quarter of 2004, and 21% and 14%, respectively, for the first quarter of 2003. More than 90% of our property and equipment is located in the United States. Other long-lived assets located outside the United States consist primarily of foundry investments and advances.

Note 11 - Stock Option Exchange Program

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

Note 12 - Subsequent Events:

In April 2004, we sold 10.0 million of our unrestricted UMC shares (see Note 9) for $9.6 in cash, resulting in a gain of $3.1 million. This gain will be reflected in Other Income, net, in our consolidated financial statements for the quarter ended June 30, 2004.

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

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

Overview of March 31, 2004 Quarter

Revenue for our business in the first quarter of 2004 grew to $59.1 million as compared to $57.3 million in the first quarter of 2003 primarily due to growth of our FPGA products of $3.0 million partially offset by a decline in the sales of SPLD products of $0.8 million and a decline in the sales of CPLD products of $0.4 million. The improvement in business conditions first seen in the fourth quarter of 2003 continued through the first quarter of 2004. This improvement is attributable to general strengthening in the PLD market and improvement in the communications end market. Future revenue growth is dependent on, among other things, continued favorable business conditions in our end markets and market acceptance of our new products.

Our gross margin declined in the first quarter of 2004 to 58.2% from 59.8% in the first quarter of 2003 due to factors including lower production yields and declining average selling prices on our new products.

Research and development expenses increased to $22.3 million (37.7% of revenue) in the first quarter of 2004 compared to $21.8 million (38.1% of revenue) in the first quarter of 2003. There were no significant cost changes in the major categories of research and development expense between the two quarters. The majority of research and development spending is related to the continued development of next generation FPGA products. We expect research and development spending in the second half of 2004 to increase by up to $2 million per quarter from present levels due to increased development costs related to the planned introduction of our next generation FPGA products.

Selling, general and administrative expenses were $13.1 million in the first quarter of 2004 (22.2% of revenue) as compared to $12.5 million in the first quarter of 2003 (21.8% of revenue) and increased primarily due to marketing expenses related to new products. To the extent our revenues continue to grow, we expect that there will be a less than proportionate increase in our selling general and administrative expenses.

Amortization of intangible assets was $18.7 million in the first quarter of 2004. Amortization of intangible assets acquired in the Vantis acquisition will be completed during the June 30, 2004 quarter. As a result, amortization will decline by approximately $1.5 million in the June 30, 2004 quarter and will decline by approximately an additional $11.3 million in the September 30, 2004 quarter.

Other income (net) of $3.1 million in the first quarter of 2004 included a gain on the sale of UMC shares (see Note 9) of $2.6 million, and $0.8 million interest and dividends on short term investments and cash equivalents, partially offset by $0.4 million of amortization of issuance costs on Zero Coupon Convertible Subordinated Notes due July 1, 2010. To the extent market conditions allow, we may make similar sales of UMC shares in future quarters (see Note 12). We are not currently paying federal or state income taxes and do not expect to pay or accrue such taxes in 2004.

Results of Operations

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

	Three Months Ended	
	Mar. 31, 2004	Mar. 31, 2003
Revenue	100.0%	100.0%
Gross margin	58.2%	59.8%
Research and development expenses	37.7%	38.1%
Selling, general and administrative expenses	22.2%	21.8%
Amortization of intangible assets	31.6%	36.9%
Loss from operations	(33.3)%	(36.9)%

Revenue:

Revenue for the first quarter of 2004 was $59.1 million, an increase of $1.8 million over the first quarter of 2003. The composition of our revenue by product family for the first quarter of 2004 and the first quarter of 2003, respectively, was as follows:

	Three Months Ended	
	Mar. 31, 2004	Mar. 31, 2003
FPGA	19%	15%
PLD (CPLD and SPLD)	81%	85%

As a percentage of revenue, U.S. sales rose to 33% for the first three months of 2004 as compared to 32% for the first three months of 2003. Export sales to Asia rose as a percentage of revenue to 40% in the first three months of 2004 as compared to 32% in the first three months of 2003. Export sales to Europe declined to 24% of revenue in the first three months of 2004 as compared to 30% in the first three months of 2003.

During the first quarter of 2004, total units sold declined two percent and average selling prices increased by five percent when compared to the first quarter of 2003. The decrease in units sold was attributable to lower sales of mature products. The increase in average selling price was primarily due to product mix. Selling prices of semiconductor products generally decline over time. This decline is at times offset by higher selling prices of new products. Our ability to achieve revenue growth is in large part dependent on the continued development, introduction and market acceptance of new products. See "Factors Affecting Future Results."

Gross margin:

Our gross margin declined in the first quarter of 2004 to 58.2% from 59.8% in the first quarter of 2003 due to factors including lower than planned production yields and declining average selling prices on our new products. We continuously endeavor to achieve reductions in overall manufacturing costs from on-going yield improvements, migration of products to more advanced technologies and reductions in wafer and assembly costs.

Research and development:

Research and development expenses increased $0.4 million in the first quarter of 2004 when compared to the first quarter of 2003. Research and development expenses consist primarily of labor, masks, prototype wafers, third-party design automation software, assembly tooling and qualification expenses. There were no significant cost changes in the major categories of research and development expense between the two quarters.

Selling, General and Administrative Expense:

Selling, general and administrative expenses were $13.1 million in the first quarter of 2004 (22.2% of revenue) as compared to $12.5 million in the first quarter of 2003 (21.8% of revenue). The cost increase was primarily due to marketing expenses related to new products.

Amortization of Intangible Assets:

Amortization of intangible assets is related to our 2002 acquisitions of Agere FPGA and Cerdelinx, our 1999 Vantis acquisition and our 2001 acquisition of Integrated Intellectual Property, Inc. ("I2P"). Amortization expense was

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$18.7 million in the first quarter of 2004, compared to $21.1 million in the first quarter of 2003. Nearly all ($2.2 million) of this decrease resulted from the accelerated write-off of accrued deferred compensation, recorded in conjunction with certain of our acquisitions, due to the cancellation of certain assumed in-the-money stock options as part of a stock option exchange program initiated during the first quarter of 2003 (see Note 11). Amortization of intangible assets acquired in the Vantis acquisition will be completed during the June 2004 quarter. As a result, amortization will decline by approximately $1.5 million in the June 2004 quarter and will decline by approximately an additional $11.3 million in the September 2004 quarter.

Other income (net):

Other income (net) of $3.1 million in the first quarter of 2004 included a gain on the sale of UMC shares (see Note 9) of $2.6 million, $0.8 million interest and dividends on short term investments and cash equivalents, partially offset by $0.4 million of amortization of issuance costs related to the Zero Coupon Convertible Subordinated Notes due July 1, 2010. To the extent market conditions allow, we may make similar sales of UMC shares in future quarters (see Note 12). We are not currently paying federal or state income taxes and do not expect to pay or accrue such taxes in 2004.

During the first quarter of 2003, we extinguished $32.8 million of our convertible subordinated notes for $29.9 million in cash, resulting in a gain of $2.9 million. In conjunction with reducing our outstanding convertible debt from $208 million at the end of the 2002 to $175 million at the end of the first quarter of 2003, quarterly interest expense was reduced $0.4 million to $2.2 million. This reduction, along with the $2.9 million gain discussed above, more than offset a reduction in interest income on invested balances caused by lower interest rates and a decrease in invested balances.

Benefit for income taxes:

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

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

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

3) In the fourth quarter of 2002, we recorded a $118.6 million charge to income tax expense, representing a valuation allowance on our recorded deferred tax assets, in accordance with SFAS 109, "Accounting for Income Taxes." We provided a valuation allowance equal to our net deferred tax assets due to uncertainties regarding their realization. Due to continued uncertainties regarding their realization, we continue to provide a valuation allowance equal to our net deferred tax assets at March 31, 2004.

Goodwill and Purchased Intangible Assets

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

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

March 31, 2004	Gross	Accumulated amortization	Net
Current technology	$ 273.6	$ (227.8)	$ 45.8
Core technology	7.3	(2.3)	5.0
Licenses	10.2	(3.2)	7.0
Non-compete agreements	14.3	(10.3)	4.0
Workforce	4.7	(1.5)	3.2
Backlog	1.4	(1.4)	—
Customer list	17.4	(16.7)	0.7
Patents and trademarks	26.8	(25.7)	1.1
Total	$ 355.7	$ (288.9)	$ 66.8

December 31, 2003	Gross	Accumulated amortization	Net
Current technology	$ 273.6	$ (214.4)	$ 59.2
Core technology	7.3	(1.9)	5.4
Licenses	10.2	(2.9)	7.3
Non-compete agreements	14.3	(9.2)	5.1
Workforce	4.7	(1.2)	3.5
Backlog	1.4	(1.4)	—
Customer list	17.4	(15.8)	1.6
Patents and trademarks	26.8	(24.3)	2.5
Total	$ 355.7	$ (271.1)	$ 84.6

The estimated future amortization expense of purchased intangible assets as of March 31, 2004 is as follows (in millions):

Fiscal Year:	Amount
2004 (remaining nine months)	$ 26.0
2005	14.4
2006	10.8
2007	9.8
2008	5.8
	$ 66.8

The estimated future amortization expense of deferred stock compensation attributable to Research and Development activities as of March 31, 2004 is $2.6 million for the remainder of 2004 and $1.9 million for 2005.

New Accounting Pronouncements

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

In May 2003, the FASB issued SFAS 150, “Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity.” This pronouncement establishes standards for how an issuer classifies and measures in its statement of financial position certain financial instruments with characteristics of both liabilities and equity. It

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

In March 2004, the Emerging Issues Task Force finalized its consensus on EITF Issue 03-6, “Participating Securities and the Two-Class Method Under FASB Statement No. 128, Earnings Per Share” (EITF 03-6). EITF 03-6 clarifies what constitutes a participating security and requires the use of the two-class method for computing basic earnings per share when participating convertible securities exist. EITF 03-6 is effective for fiscal periods beginning after March 31, 2004. We are currently analyzing the impact of adoption of EITF 03-6 on our consolidated financial statements.

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

Liquidity and Capital Resources

As of March 31, 2004, our principal source of liquidity was $298.5 million of cash and short-term investments, which was $20.8 million more than the balance of $277.8 million at December 31, 2003. Working capital increased to $380.7 million at March 31, 2004 from $363.6 million at December 31, 2003. This increase was primarily due to $13.0 million cash generated from operations. During the first quarter of 2003 we generated $8.0 million of cash and cash equivalents from our operations and we spent $30.0 million to retire a portion of our convertible notes.

Accounts receivable days outstanding declined from approximately 46 to 40 days from December 31, 2003 to March 31, 2004 reflecting the timing of receipts within the period. Inventories decreased by $2.3 million, or 5%, in the first quarter of 2004 primarily due to increasing customer shipments. Other current assets increased by $6.0 million at March 31, 2004 as compared to December 31, 2003 reflecting an increase in the amount of prepaid wafers expected to be used in the next twelve months and mark to market adjustments to equity securities available for sale primarily represented by the portion of our UMC investment that we expect to sell in the next 12 months (see Notes 9 and 12.)

Property and equipment, less accumulated depreciation, decreased by $2.5 million in the first quarter of 2004 due to depreciation exceeding expenditures for capital equipment. Foundry investments, advances and other assets decreased by $12.6 million from December 31, 2003 to March 31, 2004. This was primarily due to the reclassification of $8.8 million of our UMC investment to equity securities available for sale as described above and the reclassification of $4.6 million to Other current assets related to prepaid wafers described above, partially offset by a $0.9 million gain recorded in Accumulated other comprehensive (loss) income related to changes in the market value of our UMC shares. Net intangible assets decreased by $17.8 million in the first quarter of 2004 which is attributable to amortization during the quarter.

Accounts payable and accrued expenses increased by $3.2 million at March 31, 2004 as compared to December 31, 2003 primarily related to amounts due to suppliers. Deferred income increased by $3.3 million at March 31, 2004 as compared to December 31, 2003 reflecting an increase in the amount of inventory held by distributors.

Deferred Stock Compensation within Stockholders’ Equity decreased by $0.9 million during the first quarter of 2004 due to amortization. The $1.2 million decrease in Accumulated Other Comprehensive Income within the Statement of Stockholders’ Equity during the first quarter of 2004 is attributable to the realized gain on sale of UMC securities partially offset by the unrealized gain in equity securities (see Note 9).

At March 31, 2004, we had no senior indebtedness and our subsidiaries had approximately $2.1 million of other liabilities. Issuance costs of $3.6 million, net of debt extinguishments, relative to our zero percent convertible subordinated notes are included in Other Assets in our Condensed Consolidated Balance Sheet and are being amortized to expense over the life of the notes. Accumulated amortization amounted to $1.8 million at March 31, 2004. The estimated fair value of our convertible notes, based on quoted market prices, was approximately $189 million at the end of the March 31, 2004 quarter. At the conversion price of $12.06 per share (82.9105 shares of common stock per each $1,000 principal amount notes), 15.3 million common shares are issuable upon conversion. In general, and as further described in the related agreements, the notes may be converted into common stock before

maturity if we request a redemption, make a distribution to common stock holders that is dilutive to note holders or if we become a party to a merger or consolidation or sale of substantially all of our assets.

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

Capital expenditures were $2.0 million for the first quarter of 2004. We expect to spend approximately $15 million to $20 million for the fiscal year ending December 31, 2004.

At March 31, 2004, we own 81.7 million shares of UMC common stock. Restrictions by UMC apply to approximately 28% of these shares (see Note 9). During the first three months of 2004, we sold 10.0 million of our UMC shares for $9.2 million in cash, resulting in a gain of $2.6 million. In April 2004, we sold 10.0 million UMC shares for $9.6 million in cash resulting in a gain of $3.1 million. In the future, we may or may not choose to liquidate additional UMC shares.

In December 2000, our Board of Directors authorized management to repurchase up to five million shares of our common stock. As of March 31, 2004, we had repurchased 1,136,000 shares at an aggregate cost of $20.0 million. There were no repurchases of common stock in 2002, 2003 or the first quarter of 2004.

In March 1997 and as subsequently amended in January 2002 and March 2004, we entered into an advance payment production agreement with Seiko Epson and Epson Electronics America, Inc. (“EEA”) under which we advanced $51.3 million to Seiko Epson to finance construction of an eight-inch sub-micron semiconductor wafer manufacturing facility. Under the terms of the agreement, the advance is to be repaid with semiconductor wafers over a multi-year period. No interest income is recorded. The agreement calls for wafers to be supplied by Seiko Epson through EEA pursuant to purchase agreements with EEA. Cumulatively, $16.6 million of these payments have been repaid to us in the form of semiconductor wafers. We currently estimate that approximately $13.5 million of the outstanding advances are expected to be repaid with semiconductor wafers during the next twelve months and are thus reflected as part of Other current assets in our Consolidated Balance Sheet. We are not obligated to make additional payments under this agreement.

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

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

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

FACTORS AFFECTING FUTURE RESULTS

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

A significant portion of our revenue is derived from customers in the communications equipment and computing end markets. Due to deterioration in overall economic conditions and a significant reduction in information technology capital spending, the communications and computing end markets have experienced a significant and

prolonged downturn. While economic conditions in general, and the communications and computer end markets in particular, have recently shown signs of improvement, the improved conditions may not continue or lead to improved demand for our products. Whenever adverse economic or end market conditions exist, there is likely to be an adverse effect on our operating results.

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

As a semiconductor company, we operate in a dynamic environment marked by rapid product obsolescence. Our future success depends on our ability to introduce new or improved silicon and software products that meet customer needs while achieving acceptable margins. If we fail to introduce these new products in a timely manner or these products fail to achieve market acceptance, our operating results would be harmed.

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

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

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

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

In March 2004, we announced that 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 future product launches is dependent on our ability to successfully partner with Fujitsu, which has not previously manufactured any of our products. If for any reason we are unsuccessful in our efforts to partner with Fujitsu in connection with these future product launches, our future revenue growth will be materially adversely affected.

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

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

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

Beginning in 2001, the semiconductor industry experienced a downturn of extreme severity and duration. While semiconductor industry conditions recently have improved, the improvement may not be significant or sustainable. Increased demand for semiconductor industry products may not proportionately increase demand for programmable

logic market segment products in general, or our products in particular. Even if demand for our products increases, average sales prices for our products may not increase, and could decline. Whenever adverse semiconductor industry conditions or other similar conditions exist, there is likely to be an adverse effect on our operating results.

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

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

We face risks related to our recent accounting restatement.

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

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

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

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

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

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

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

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

- the scheduling, rescheduling and cancellation of large orders by our customers;
- our ability to develop new process technologies and achieve volume production at the fabs of Seiko Epson, UMC, Chartered Semiconductor, Fujitsu or at other foundries;
- changes in manufacturing yields;
- adverse movements in exchange rates, interest rates or tax rates; and
- the availability of adequate supply commitments from our wafer foundries and assembly and test subcontractors.

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

Our stock price may continue to experience large fluctuations.

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

- quarter-to-quarter variations in our operating results;
- shortfalls in revenue or earnings from levels expected by securities analysts; and
- announcements of technological innovations or new products by other companies.

Presently, our stock price is trading near our consolidated book value. A sustained decline in our stock price may result in a write-off of goodwill (see Note 1 of our Consolidated Financial Statements).

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

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

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

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

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

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

The majority of our revenue is derived from products based on a specialized silicon wafer manufacturing process technology called E²CMOS®. The reliable manufacture of high performance E²CMOS semiconductor wafers is a complicated and technically demanding process requiring:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

Item 4. Controls and Procedures

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

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

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

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

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

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

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

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

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

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5. Made appropriate personnel changes.

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

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

1. Review, select and implement available improvements to information systems for distribution accounting;

2. Separate responsibilities for preparing financial statements and maintaining accounts in the company's general ledger;

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

4. Perform more detailed quarterly reconciliations and analyses of the company's deferred revenue accounts related to its distributors;

5. Enhance quarterly accounting review procedures requiring an independent review of material general ledger accounts;

6. Require all non recurring journal entries to be approved by an independent reviewer; and

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

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

PART II. OTHER INFORMATION

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

In December 2000, our Board of Directors authorized management to repurchase up to five million shares of our common stock. As of March 31, 2004, we had repurchased 1,136,000 shares at an aggregate cost of $20.0 million. There were no repurchases of common stock in 2002, 2003 or the first quarter of 2004.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

10.42 Amendment dated March 25, 2004 to Advance Production Payment Agreement dated March 17, 1997, as previously amended, among Lattice Semiconductor Corporation and Seiko Epson Corporation and S MOS Systems, Inc. (1).

31.1 Certification of Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended.

31.2 Certification of Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended.

32.1 Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

(b) Reports on Form 8-K

The following reports on Form 8-K were filed during the quarter ended March 31, 2004

On March 24, 2004, we filed a Current Report on Form 8-K which included a press release of the same date, reporting our financial results for the fourth quarter and year ended December 31, 2003.

On March 24, 2004 we filed a Current Report on Form 8-K announcing that Fujitsu Limited ("Fujitsu") has agreed to manufacture our next generation FPGA products on its 130-nanometer (nm) and 90-nanometer CMOS process technologies, as well as on a 130-nm technology with embedded Flash memory that we have jointly developed with Fujitsu. Additionally we announced plans which contemplate investing in stages before the end of 2005 between $100 million to $200 million in Fujitsu's new 300mm wafer fab and structuring the investment as an advance payment for production wafers and for access to future process technologies.

On March 19, 2004 we filed a Current Report on Form 8-K, which included a press release dated March 18, 2004 announcing a delay in releasing our financial results for the year and quarter ended December 31, 2003 and an anticipated restatement of the first, second and third quarter of 2003 financial results.

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(1) Pursuant to Rule 24b-2 under the Securities Exchange Act of 1934, confidential treatment has been requested for portions of this exhibit, which portions have been deleted and filed separately with the Securities and Exchange Commission.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

LATTICE SEMICONDUCTOR CORPORATION (Registrant)

Date: May 12, 2004

By: /s/ Jan Johannessen

Jan Johannessen

Corporate Vice President and Chief Financial Officer

* Omitted and filed separately with the SEC pursuant to a confidential treatment request

2nd AMENDMENT TO ADVANCE PRODUCTION PAYMENT AGREEMENT

THIS 2nd AMENDMENT TO THE ADVANCE PAYMENT AGREEMENT of March 17, 1997 ("this Amendment"), is entered into this 25th day of March, 2004, by and among SEIKO EPSON CORPORATION, a Japanese corporation having its principal place of business at 3-5, Owa 3-chome, Suwa-shi, Nagano-ken 392, Japan ("Epson"), EPSON ELECTRONICS AMERICA, INCORPORATED (formerly known as S MOS Systems Inc.), a California corporation, having a place of business at 150 River Oaks Parkway, San Jose, CA 95134-1951, U.S.A. ("EEA") and Lattice Semiconductor Corporation, a Delaware corporation, having a place of business at 5555 N.E. Moore Ct., Hillsboro, Oregon 97124-6421, U.S.A. ("Lattice").

RECITALS

WHEREAS the parties entered into an Advance Production Payment Agreement (the "Agreement") on or about March 17, 1997, as amended on December 21, 2001;

WHEREAS the parties desire to modify the Agreement and to set forth such mutually consensual modifications in writing by way of this Amendment pursuant to Article 15.16 of the Agreement;

WHEREAS the parties entered into a New Facility Wafer Purchase Agreement dated July 25, 1997, as amended on December 21, 2001 ("New Facility Wafer Purchase Agreement");

WHEREAS the parties will contemporaneously amend any relevant provisions of the New Facility Wafer Purchase Agreement so as to be consistent with this Amendment the amended agreement is hereinafter referred to as the "Amended New Facility Wafer Purchase Agreement";

WHEREAS all references to headings and provisions thereto in this Amendment correspond to those in the Agreement;

NOW, THEREFORE, in consideration of the premises and mutual covenants set out in the Agreement and this Amendment, such Agreement is hereby amended and/or supplemented as follows:

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* Omitted and filed separately with the SEC pursuant to a confidential treatment request

1 Background

1.1 Epson

Epson is in the business of designing, manufacturing, testing and selling semiconductor devices, among other products. Epson manufactures such semiconductor devices at its plant located at 281 Fujimi, Fujimi-machi, Suwa-gun, Nagano-ken 399-0293, Japan (the "Fujimi Facility") , its plant located at 166-3 Jurizuka, Sakata-shi, Yamagata-ken 998-0194, Japan (the "Sakata Facility") and its Subsidiary's plant located at 686-1 Ichimiyake, Yasu-Cho, Yasu-gun, Shiga-ken 520-2362, Japan (the "YSC Facility").

2 Definitions

2.1 "APP" will mean the advance production payment of Six Billion, Two Hundred Eighty-Three Million, Seven Hundred Thousand Japanese Yen (JPY6,283,700,000) made by Lattice to Epson in the manner described in Article 4.

2.6 "New Facility" will mean the [*] process lines constructed at the Site using the Equipment.

2.9 "Products" will mean those specific types of New Facility Wafers fabricated using the same masks and the same process flow and identified by the same series or product name or number. The Products will be ordered, fabricated, delivered and sold pursuant to the terms and conditions of the Amended New Facility Wafer Purchase Agreement. The Products which the parties desire to fabricate at the New Facility will be agreed by and between Epson and Lattice, referring to the Process Road Map for Lattice attached hereto as Exhibit B, which may be reviewed and amended from time to time by mutual agreement of the parties. The parties acknowledge however, that the final determination of what Products will be fabricated may depend on the results of joint development and product qualification.

"Products" will also mean those specific types of 6 inch wafers fabricated by Epson for Lattice at Epson's D Wing (Fujimi) and S Wing (Sakata) Fabs that are credited against the APP pursuant to this Amendment and the Amended New Facility Wafer Purchase Agreement.

2.18 "6 Inch Wafer(s)" will mean the semi conductor wafers to be fabricated by Epson for Lattice at Epson's D Wing and S Wing Fabs.

2.19 "6 Inch APP Wafer(s)" will mean the semiconductor wafers to be fabricated by Epson for Lattice at Epson's D Wing and S Wing Fabs that are to be credited against the APP pursuant to this Amendment and the Amended New Facility Wafer Purchase Agreement.

2.20 "8 Inch Wafer(s)" will mean the semiconductor wafers to be fabricated by Epson for Lattice at Epson's R Wing and T Wing Fabs.

2.21 "8 Inch APP Wafer(s)" will mean the semiconductor wafers to be fabricated for Lattice at Epson's R Wing and T Wing Fabs that are to be credited against the APP pursuant to this Amendment and the Amended New Facility Wafer Purchase Agreement.

2.22 “YSC Facility” will have the meaning ascribed to it in Article 1.1.

2.23 “YSC Wafer(s)” will mean the 8 inch semiconductor wafers to be fabricated by Epson’s subsidiary for Lattice at the YSC Facility.

2.24 “YSC APP Wafer(s)” will mean the 8 inch semiconductor wafers to be fabricated by Epson’s subsidiary for Lattice at the YSC Facility that are to be credited against the APP pursuant to this Amendment and the Amended New Facility Wafer Purchase Agreement.

2.25 “YSC Products” will mean those 8 inch wafers fabricated by Epson’s subsidiary at the YSC Facility that are credited against the APP pursuant to this Amendment and the Amended New Facility Wafer Purchase Agreement.

4 APP

4.1 APP

Lattice shall pay to Epson an amount equal to Six Billion, Two Hundred Eighty-Three Million, Seven Hundred Thousand Japanese Yen (JPY6,283,700,000) (“APP”), which APP will be credited against certain future purchases by Lattice of 6 Inch APP Wafers, 8 Inch APP Wafers, and YSC APP Wafers as provided in Article 5. As of this date, the entire amount has been paid.

5 Credit of APP

5.1 Credit of APP

The purchase price of 6 Inch APP Wafers, 8 Inch APP Wafers, and YSC APP Wafers purchased by Lattice under the Amended New Facility Wafer Purchase Agreement will be credited against the amount of the APP until the aggregate Japanese Yen value of all 8 Inch APP Wafers (excluding the Free Wafers), 6 Inch APP Wafers, and YSC APP Wafers (excluding the YSC Free Wafers) purchased and received by Lattice pursuant to the Amended New Facility Wafer Purchase Agreement, as calculated pursuant to Article 5.2, equals or exceeds the amount of the APP. It is the intention of the parties to

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accelerate the APP prepayment allocation using all 6 Inch APP Wafers, 8 Inch APP Wafers, and YSC APP Wafers as purchased under terms and conditions of the Amended New Facility Wafer Purchase Agreement. The criteria and time required for wafer acceptance by Lattice will be described in the Amended New Facility wafer Purchase Agreement.

5.2 Calculation of Aggregate Credit Value

The amount of APP will be offset and reduced on Japanese Yen to Japanese Yen basis, at the end of each calendar month of this Agreement, by an amount equal to the Price for the 8 Inch APP Wafers multiplied by the total number of 8 Inch APP Wafers (excluding the Free Wafers); plus the Price for the 6 Inch APP Wafers multiplied by the total number of 6 Inch APP Wafers; plus the Price for the YSC APP Wafers multiplied by the total number of YSC APP Wafers (excluding the YSC Free Wafers) shipped to Lattice pursuant to the Amended New Facility Wafer Purchase Agreement during the calendar month, with adjustment of the increase pursuant to the methods provided in the Amended New Facility Wafer Purchase Agreement; however under no circumstances shall the APP balance be increased, except as provided for in Article 14.8 of this Agreement.

5.3 Invoices

Epson will cause EEA to provide Lattice with invoices under the Amended New Facility Wafer Purchase Agreement which, for the purpose of APP application, will specify the purchase price of the 8 Inch APP Wafers, 6 Inch APP Wafers, and YSC APP Wafers. Also, EEA shall provide Lattice and Epson with the monthly report describing, among others, the outstanding balance of the APP (after the application of all prior offsets, reductions and credits) as of the commencement of the month subject to the invoices, the number of 8 Inch APP Wafers and/or 6 Inch APP Wafers and/or YSC APP Wafers shipped to Lattice in accordance with the Amended New Facility Wafer Purchase Agreement during that calendar month and the applied Price, and the outstanding balance of the APP as of the end of such calendar month. Such report shall be signed by the respective responsible person at Epson, EEA and Lattice, provided that Lattice shall not be required to sign any such report unless it is satisfied with the accuracy and completeness thereof. Lattice may, for its signature, review all invoices and reports for inaccuracies and if any such inaccuracies are found and confirmed by Epson and EEA, Lattice may request to make corrections to these invoices and reports.

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* Omitted and filed separately with the SEC pursuant to a confidential treatment request

6 Supply Commitment

6.2 Purchase Agreements

The parties anticipate that the Amended New Facility Wafer Purchase Agreement will apply to Products distributed by Lattice which require fabrication using the [*] Micron

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Process and to the 6 Inch APP Wafers; provided, however, that the Supply Commitment applies only to New Facility Wafers.

8 Free Wafers

8.1 YSC Free Wafers

As a consideration for Lattice's payment of APP, Epson shall provide Lattice with [*] free YSC Wafers of a YSC Product manufactured in the YSC Facility ("YSC Free Wafers") through EEA pursuant to the Amended New Facility Purchase Agreement for every [*] YSC Wafers ordered by Lattice towards the offset of APP after the execution of this Agreement [*]. The number of such free wafers will be included in the calculation of total free wafers pursuant to section 8 above. For the purpose of calculating the number of YSC Free Wafers earned by Lattice, only YSC APP Wafers ordered by Lattice will count toward YSC Free Wafers. If at any time Lattice should cease doing business with the YSC Facility, any YSC Free Wafers earned, plus the remaining balance of YSC APP Wafers ordered toward YSC Free Wafers, will be counted as if they were New Facility 8 Inch APP Wafers.

10 Wafer Pricing and Payment

10.1 Determination of Price

The general method for determining the price of Products ("Price") shall be as set forth in Exhibit E. Epson agrees that at any time the Prices to Lattice [*]. The Price herein shall be applicable until Lattice has completed the purchase of [*] New Facility Wafers under the terms of this Agreement.

10.3 Payment

Unless otherwise stated in this Agreement or this Amendment, other than through offset of the APP, Lattice will not be required to pay for any 8 Inch APP Wafers, 6 Inch APP Wafers, or YSC APP Wafers delivered under this Agreement or the Amended New Facility Wafer Purchase Agreement until the

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* Omitted and filed separately with the SEC pursuant to a confidential treatment request

APP has been fully offset and reduced. Once the APP is fully offset and reduced, Lattice will be required to pay Epson for New Facility Wafers in the manner specified in the Amended New Facility Wafer Purchase Agreement based on the Price until Lattice has completed the purchase of [*] New Facility Wafers under the terms of this Agreement. Once the APP has been fully offset and reduced, Lattice will be required to pay Epson for 6 Inch Wafers in the manner specified in the Six Inch Wafer Purchase

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Agreement and for YSC Wafers in the manner specified in the Amended New Facility Wafer Purchase Agreement.

15 Miscellaneous

15.7 Notices and Comunications

Any notices required or permitted to be given hereunder will be in English and be sent by (i) registered airmail or (ii) cable, facsimile or telex to be confirmed by registered airmail, addressed to:

To Epson:
281 Fujimi, Fujimi-machi, Suwa-gun
Nagano-ken 399-0293, Japan
Attn: Yasumasa Otsuki
Managing Director and Chief Executive of
Semiconductor Operations Division
Tel: 81-266-61-1211
Fax: 81-266-61-1271

To EEA:
150 River Oaks Parkway, San Jose, CA 95134–1951
U.S.A.
Attn: Nobuyoshi Takei
President and Chief Executive Officer
Tel: 1-408-576-4354
Fax: 1-408-535-8688

To Lattice:
5555 N.E. Moore Ct., Hillsboro, OR 97124-6421
U.S.A.
Attn: Cyrus Tsui
Chairman and Chief Executive Officer
Tel: 1-503-268-8000
Fax: 1-503-268-8077

Any such notice will be deemed given at the time of its receipt by the addressee.

The foregoing or forthcoming provisions in this Amendment shall replace and supercede the corresponding provisions in the Agreement and Exhibits. Where a foregoing or forthcoming provision in this Amendment has no corresponding provision in the Agreement or Exhibits, such provision shall supplement the Agreement or Exhibits. The

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remainder of the Agreement and Exhibits, as amended, shall remain in full force and effect.

IN WITNESS WHEREOF, the parties have signed this Amendment as of the date first above written.

LATTICE SEMICONDUCTOR CORPORATION

By: /s/ Jonathan Yu for Cyrus Tsui
Name: Cyrus Tsui
Title: Chairman and Chief Executive Officer

SEIKO EPSON CORPORATION

By: /s/ Yasu Otsuki
Name: Yasumasa Otsuiki
Title: Managing Director and Chief Executive of Semiconductor Operations Division

EPSON ELECTRONICS AMERICA, INC. (formerly S MOS SYSTEMS, INC.)

By: /s/ Nobuyoshi Takei
Name: Nobuyoshi Takei
Title: President and Chief Executive Officer

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* Omitted and filed separately with the SEC pursuant to a confidential treatment request

EXHIBIT C
"Payment Schedule"

[Provision 4 under this Exhibit C is hereby deleted by this Amendment]

EXHIBIT E
"Price Determination Procedure"
[*]

"APP Offset Procedure"
[*]

Exhibit 31.1

CERTIFICATION

I, Cyrus Y. Tsui, certify that:

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

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

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

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

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

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

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

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

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

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

Date: May 12, 2004

/s/ Cyrus Y. Tsui

Cyrus Y. Tsui
Chief Executive
Officer

Exhibit 31.2

CERTIFICATION

I, Jan Johannessen, certify that:

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

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

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

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

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

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

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

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

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

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

Date: May 12, 2004

/s/Jan Johannessen

Jan Johannessen
Corporate Vice President and
Chief Financial Officer

Exhibit 32.1

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

I, Cyrus Y. Tsui, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report on Form 10-Q of Lattice Semiconductor Corporation for the quarter ended March 31, 2004 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Quarterly Report fairly presents, in all material respects, the financial condition and results of operations of Lattice Semiconductor Corporation.

By: /s/ Cyrus Y.Tsui

Name:	Cyrus Y. Tsui
Title:	Chief Executive Officer

I, Jan Johannessen, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report on Form 10-Q of Lattice Semiconductor Corporation for the quarter ended March 31, 2004 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Quarterly Report fairly presents, in all material respects, the financial condition and results of operations of Lattice Semiconductor Corporation.

By: /s/ Jan Johannessen

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