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

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

For the quarterly period ended January 2, 1999

OR

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

For the transition period from ______________ to _____________

Commission file number 0 - 18032

LATTICE SEMICONDUCTOR CORPORATION

(Exact name of Registrant as specified in its charter)

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

(503) 681-0118

(Registrant's telephone number, including area code)

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

At January 2, 1999 there were 23,383,942 shares of the Registrant's common stock, $.01 par value, outstanding.

LATTICE SEMICONDUCTOR CORPORATION

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

LATTICE SEMICONDUCTOR CORPORATION

CONSOLIDATED STATEMENT OF OPERATIONS
(IN THOUSANDS, EXCEPT PER SHARE DATA)
(UNAUDITED)

	Three Months Ended		Nine Months Ended	
	Jan. 2, 1999	Dec. 27, 1997	Jan. 2, 1999	Dec. 27, 1997
Revenue	$ 50,168	$ 60,038	$ 146,284	$ 185,726
Costs and expenses:				
Cost of products sold	19,545	23,855	57,697	74,786
Research and development	8,498	7,983	24,313	23,824
Selling, general and administrative	9,332	10,184	27,342	30,258
Total costs and expenses	37,375	42,022	109,352	128,868
Income from operations	12,793	18,016	36,932	56,858
Other income, net	2,782	2,667	7,808	7,913
Income before provision for income taxes	15,575	20,683	44,740	64,771
Provision for income taxes	5,062	7,032	14,541	22,022
Net income	$ 10,513	$ 13,651	$ 30,199	$ 42,749
Basic net income per share	$ 0.45	$ 0.58	$ 1.29	$ 1.84
Diluted net income per share	$ 0.45	$ 0.57	$ 1.27	$ 1.79
Shares used in per share calculations:				
Basic net income	23,393	23,342	23,460	23,186
Diluted net income	23,618	23,981	23,701	23,888

See accompanying Notes to Consolidated Financial Statements.

LATTICE SEMICONDUCTOR CORPORATION

CONSOLIDATED BALANCE SHEET
(IN THOUSANDS, EXCEPT SHARE DATA)

ASSETS	Jan. 2, 1999	March 28, 1998
	(unaudited)	
Current assets:		
Cash and cash equivalents	$ 54,744	$ 60,344
Short-term investments	244,421	206,766
Accounts receivable	18,502	28,229
Inventories	19,060	22,647
Prepaid expenses and other current assets	5,471	5,572
Deferred income taxes	13,246	14,500
Total current assets	355,444	338,058
Foundry investments, advances and other assets	114,587	114,338
Property and equipment, net	43,490	36,670
	$ 513,521	$ 489,066
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable and accrued expenses	$ 28,698	$ 29,427
Deferred income on sales to distributors	16,689	20,743
Income taxes payable	4,729	4,210
Total current liabilities	50,116	54,380
Commitments and contingencies	--	--
Stockholders' equity:		
Preferred stock, $.01 par value, 10,000,000 shares authorized; none issued or outstanding	--	--
Common stock, $.01 par value, 100,000,000 shares authorized, 23,383,942 and 23,428,072 shares issued and outstanding	234	234
Paid-in capital	214,810	216,290
Retained earnings	248,361	218,162
Total stockholders' equity	463,405	434,686
	$ 513,521	$ 489,066

See accompanying Notes to Consolidated Financial Statements.

LATTICE SEMICONDUCTOR CORPORATION

CONSOLIDATED STATEMENT OF CASH FLOWS
(IN THOUSANDS)
(UNAUDITED)

	Nine Months Ended	
	Jan. 2, 1999	Dec. 27, 1997
Cash flows from operating activities:		
Net income	$ 30,199	$ 42,749
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	7,189	7,160
Changes in assets and liabilities:		
Accounts receivable	9,727	(1,577)
Inventories	3,587	4,792
Prepaid expenses and other assets	(148)	(24,093)
Wafer supply advance	--	12,516
Deferred income taxes	1,254	(700)
Accounts payable and accrued expenses	(729)	1,281
Deferred income	(4,054)	1,013
Income taxes payable	519	806
Total adjustments	17,345	1,198
Net cash provided by operating activities	47,544	43,947
Cash flows from investing activities:		
Purchase of short-term investments, net	(37,655)	(24,541)
Foundry investments	--	(10,260)
Capital expenditures	(14,009)	(13,400)
Net cash used by investing activities	(51,664)	(48,201)
Cash flows from financing activities:		
Net proceeds from issuance of common stock	7,678	15,671
Repurchase of common stock	(9,158)	--
Net cash (used) provided by financing activities	(1,480)	15,671
Net (decrease) increase in cash and cash equivalents	(5,600)	11,417
Beginning cash and cash equivalents	60,344	53,949
Ending cash and cash equivalents	$ 54,744	$ 65,366

See accompanying Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

(1) Basis of Presentation:

The accompanying consolidated financial statements are unaudited and have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission and in the opinion of management include all adjustments, consisting only of normal recurring adjustments, necessary for the fair statement of results for the interim periods. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. These consolidated financial statements should be read in conjunction with the audited financial statements and notes thereto included in the Company's annual report on Form 10-K for the fiscal year ended March 28, 1998.

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

(2) Revenue Recognition:

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

(3) Net Income Per Share:

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

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

	Three Months Ended		Nine Months Ended	
	Jan. 2, 1999	Dec.27 1997	Jan. 2, 1999	Dec.27 1997
Basic and diluted net income	$ 10,513	$13,651	$ 30,199	$42,749
Shares used in basic net income per share calculations	23,393	23,342	23,460	23,186
Dilutive effect of options and warrants	225	639	241	702
Shares used in diluted net income per share calculations	23,618	23,981	23,701	23,888
Basic net income per share	$0.45	$0.58	$1.29	$1.84
Diluted net income per share	$0.45	$0.57	$1.27	$1.79

(4) Inventories (in thousands):

	Jan. 2, 1999	March 28, 1998
Work in progress	$11,400	$12,675
Finished goods	7,660	9,972
	$19,060	$22,647

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

	Common Stock	Paid-in Capital	Retained Earnings	Total
Balances, March 28, 1998	$ 234	$ 216,290	$218,162	$434,686
Stock option exercises	3	7,811	--	7,814
Stock repurchases	(3)	(9,155)	--	(9,158)
Other comprehensive income	--	(136)	--	(136)
Net income for the nine-month period	--	--	30,199	30,199
Balances, Jan. 2, 1999	$ 234	$ 214,810	$248,361	$463,405

(6) New Accounting Pronouncements:

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

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

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

(7) Contingencies:

Patent and other proprietary rights infringement claims are common in the semiconductor industry. The Company is exposed to certain asserted and unasserted potential claims. The Company has recently received notification of possible infringements of certain patents. There can be no assurance that, with respect to these or any other such claims made against the Company, the Company could obtain licenses on terms or under conditions that would not have a material adverse effect on the Company.

(8) Reclassification:

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

The portion of this investment made during the nine month period ended December 27, 1997, approximately $10.3 million, has been reclassified in the accompanying Consolidated Statement of Cash Flows as a component of cash flows from investing activities. Previously, this investment was classified as a component of cash flows from operating activities.

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

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

RESULTS OF OPERATIONS

REVENUE

Revenue was $50.2 million in the third quarter of fiscal 1999, as compared to $60.0 million in the third quarter of fiscal 1998. Revenue for the first nine month period of fiscal 1999 was $146.3 million, as compared to $185.7 million for the first nine month period of 1998. Revenue in the third quarter and first nine month period of fiscal 1999 as compared to the same fiscal periods in fiscal 1998 was negatively impacted by a decline in demand in Asia due to the economic crisis in that region, and a decline in demand from the computing and communications end markets. The majority of the Company's revenue in the fiscal periods presented was derived from the sale of products that address the in-system programmable ("ISP-TM-") segment of the CMOS programmable logic market. Revenue from these products comprised approximately 73% and 72% of total revenue for the third quarter and first nine month period of fiscal 1999, respectively, as compared to 67% and 63% in the third quarter and first nine month period of fiscal 1998.

Revenue from export sales was 51% in the third quarter of fiscal 1999 and the third quarter of fiscal 1998. For the first nine month period of fiscal 1999, revenue from export sales was 50%, as compared to 51% for the first nine month period of fiscal 1998. The Company expects export sales to continue to represent a significant portion of revenue. See "Factors Affecting Future Results".

Overall average selling prices decreased slightly in the third quarter of fiscal 1999 as compared to the third quarter of fiscal 1998. For the first nine month period of fiscal 1999, overall average selling prices increased slightly when compared to the first nine month period of fiscal 1998. Fluctuations in overall average selling prices were due primarily to product mix changes. Although selling prices of mature products generally decline over time, this decline is at times offset by higher selling prices of new products. The Company's ability to achieve revenue growth is in large part dependent on the continued development, introduction and market acceptance of new products. See "Factors Affecting Future Results".

GROSS MARGIN

The Company's gross margin as a percentage of revenue was 61.0% in the third quarter of fiscal 1999 as compared to 60.3% in the third quarter of fiscal 1998. For the first nine month period of fiscal 1999, the gross margin was 60.6%, an increase from 59.7% in the first nine month period of fiscal 1998. This increase in gross margin percentages was primarily due to product mix changes resulting from an increase in the percentage of revenue from ISP products and reductions in the Company's manufacturing costs. Reductions in manufacturing costs were primarily due to learning curve related cost improvements passed on by contract manufacturers, internal yield improvements and the migration of products to more advanced technologies and smaller die sizes.

RESEARCH AND DEVELOPMENT

Research and development expense increased by approximately $0.5 million, or six percent, in the third quarter of fiscal 1999 when compared to the third quarter of fiscal 1998, and increased by $0.5 million, or two percent, in the first nine month period of fiscal 1999 when compared to the first nine month period of fiscal 1998. As a percentage of revenue, this expense increased to approximately 17% in the third quarter and first nine month period of fiscal 1999 from approximately 13% in the third quarter and first nine month period of fiscal 1998. This increase in spending resulted primarily from the development of new products, including the Company's new ISP product families and related software development tools. The Company believes that a continued commitment to research and development is essential in order to maintain product leadership in its existing product families and to provide innovative new product offerings, and therefore expects to continue to make significant investments in research and development in the future.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSE

Selling, general and administrative expense decreased by approximately $0.9 million, or eight percent, in the third quarter of fiscal 1999 when compared to the third quarter of fiscal 1998, and decreased by $2.9 million, or 10%, in the first nine month period of fiscal 1999 when compared to the first nine month period of fiscal 1998. This decrease was primarily due to lower sales commissions associated with the lower revenue levels. Selling, general and administrative expense represented approximately 19% of revenue for the fiscal 1999 periods, as compared to between 16% and 17% of revenue for the fiscal 1998 periods.

OTHER INCOME, NET

Interest and other income (net of expense) was approximately flat in the third quarter and first nine month period of fiscal 1999, respectively, as compared to the third quarter and first nine month period of fiscal 1998 as higher cash balances were offset by lower yields on invested balances.

PROVISION FOR INCOME TAXES

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

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

FACTORS AFFECTING FUTURE RESULTS

The Company believes that its future operating results will be subject to quarterly variations based upon a wide variety of factors, including the cyclical nature of both the semiconductor industry and the end markets addressed by the Company's products, general economic conditions in countries where the Company's products are sold, price erosion, timing of new product introductions, product obsolescence, scheduling, rescheduling and cancellation of large orders, competitive factors, the ability to develop and implement new process technologies, fluctuations in manufacturing yields, the ability to achieve volume production at Seiko Epson's and the UMC Group's new wafer fabs, substantial adverse currency exchange rate movements, the availability of manufacturing capacity and wafer supply and potential litigation expenses. Due to these and other factors, the Company's past results are a less useful predictor of future results than is the case in more mature and stable industries. The Company has in the past increased its level of operating expenses and investment in manufacturing capacity in anticipation of future growth in revenues, primarily from increased sales of its new ISP products. To the extent that this revenue growth does not materialize, the Company's operating results will be adversely affected.

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

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

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

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

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

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

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

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

Export sales accounted for 50% and 51% of the Company's revenues for the first nine months of fiscal 1999 and 1998, respectively. The Company believes that export sales will continue to represent a significant percentage of revenues. Export sales may continue to be adversely affected by regional economic conditions such as the recent Asian economic crisis, or may be affected by the imposition of governmental controls, export license requirements, restrictions on the export of technology, political instability, trade restrictions, changes in tariffs and difficulties in staffing and managing foreign sales offices.

The Company currently depends on Asian manufacturers -- Seiko Epson, a Japanese company, and the UMC Group, a group of affiliated Taiwanese companies -- for the manufacture of all its finished silicon wafers. In addition, after wafer manufacturing is completed and each wafer is tested, products are assembled by Asian subcontractors in Hong Kong, Malaysia, the Philippines, South Korea and Taiwan. Although the Company has yet not experienced significant problems or interruption in supply from its Asian subcontractors, the economic, financial, social and political situation in Asia has recently been volatile. Specific financial difficulties, prolonged work stoppages or other difficulties experienced by the Company's subcontractors as a result of the conditions in Asia may disrupt the Company's ability to manufacture and assemble its products and would have a material adverse effect on the Company's results of operations. Furthermore, general economic risks, such as recession, exchange rate volatility, changes in tax laws, tariffs, or freight rates, or interruptions in air transportation, could have a material adverse effect on the Company's results of operations.

The Company depends upon wafer suppliers to produce wafers with acceptable yields and to deliver them to the Company in a timely manner. Substantially all of the Company's revenues are derived from products based on E(2)CMOS-Registered Trademark- process technology. Successful implementation of the Company's proprietary E(2)CMOS process technology, UltraMOS-Registered Trademark-, requires a high degree of coordination between the Company and its wafer supplier. Therefore, significant lead time is required to reach volume production at a new wafer supply location such as Seiko Epson's or the UMC Group's new wafer fabs. Accordingly, there can be no assurance that volume production at Seiko Epson's or the UMC Group's new wafer fabs will be achieved in the near term or at all. The manufacture of high performance E2CMOS semiconductor wafers is a complex process that requires a high degree of technical skill, state-of-the-art equipment and effective cooperation between the wafer supplier and the circuit designer to produce acceptable yields. Minute impurities, errors in any step of the fabrication process, defects in the masks used to print circuits on a wafer and other factors can cause a substantial percentage of wafers to be rejected or numerous die on each wafer to be non-functional. As is common in the semiconductor industry, the Company has from time to time experienced in the past, and expects that it will experience in the future, production yield problems and delivery delays. Any prolonged inability to obtain adequate yields or deliveries could adversely affect the Company's operating results.

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

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

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

The Company's wafer purchases from Seiko Epson are denominated in Japanese yen. The value of the dollar with respect to the yen has fluctuated in the past. There is no assurance that the value of the dollar with respect to the yen will be stable in the future. Any substantial and prolonged deterioration of dollar-yen exchange rates could have a material adverse effect on the Company's results of operations.

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

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

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

The Company is currently working to address the potential impact of the Year 2000 on the processing of information by the Company's computerized systems, including interfaces to its business partners. The Company has established a project team to manage Year 2000 activities and divided the project into three phases: assessment, compliance and testing. At present, the Company is generally in the compliance phase. The Company plans to complete its Year 2000 compliance and testing effort by the third calendar quarter of 1999 and does not anticipate that resolution of Year 2000 issues will have a material adverse impact on the Company's financial position or operating results. Accordingly, the Company has not yet established formal contingency plans. However, in the event the Company, or any of its critical business partners is not successful in addressing Year 2000 issues on a timely basis, there could be a material adverse impact on the Company's operating results. Management believes the most reasonably likely worst case scenario is a temporary disruption in supplier deliveries or customer shipments. If severe disruptions occur in these areas and are not corrected in a timely manner, a revenue or profit shortfall may result in the first half of calendar year 2000. The status of the Company's Year 2000 effort by area is as follows:

INTERNAL BUSINESS SOFTWARE AND SYSTEMS: The Company has completed an inventory and assessment of its internal business software and systems, including electronic business partner interfaces. At present, two main compliance projects are ongoing. During 1998, as part of a business modernization effort, the Company purchased an Enterprise Resource Planning (ERP) package that the vendor has contractually stipulated to be Year 2000 compliant. Implementation of this ERP package is currently in process and is scheduled for completion during the first half of calendar 1999. The Company is also modifying its internally developed inventory management system to achieve Year 2000 compliance. Modification of the inventory management system is scheduled for completion during the first half of calendar 1999. The total combined cost of these two projects is not expected to exceed $2 million. Based on current schedules, the Company expects its internal business software and systems to be in compliance before the start of calendar year 2000. However, if due to unforeseen circumstances compliance projects are not successful or are not completed on a timely basis, Year 2000 issues could have a material adverse impact on the Company's operating results.

INTERNAL EQUIPMENT AND NON-BUSINESS SOFTWARE: The Company has completed an inventory and assessment of its internal equipment and non-business software. At present, the Company is working with suppliers of non-compliant equipment and software in order to resolve identified Year 2000 issues. The cost of this activity is not expected to be material. Based on current schedules, the Company expects to complete this activity and achieve compliance of its equipment and non-business software by the first half of calendar 1999. However, if due to unforeseen circumstances this activity is not successful or is not completed on a timely basis, Year 2000 issues could have a material adverse impact on the Company's operating results.

BUSINESS PARTNER NON-COMPLIANCE: The Company has identified its critical suppliers and is in the process of contacting them to ascertain the extent of their Year 2000 readiness. At present, all critical suppliers have informally assured the Company that they will be compliant prior to the Year 2000. In the event that any of the Company's critical suppliers fail to adequately address their Year 2000 exposure on a timely basis, and this exposure results in a significant disruption in the operations of that supplier, there could be a material adverse impact on the Company's operating results. The Company plans to request formal compliance statements from critical suppliers prior to July 1999. Based on the responses to this request, the Company will develop supplier specific contingency plans at that time. Additionally, there can be no assurance that the Company's customers, distributors, financial service and utility providers will completely address all their Year 2000 issues on a timely basis. In the event that Year 2000 issues create significant disruption in the operations of any of the Company's major customers, distributors, financial service or utility providers, there could be a material adverse impact on the Company's operating results.

LIQUIDITY AND CAPITAL RESOURCES

As of January 2, 1999, the Company's principal source of liquidity was

$299.2 million of cash and short-term investments, an increase of approximately $32.1 million from the balance of $267.1 million at March 28, 1998. This increase was primarily the result of cash generated from operations. The Company also has available an unsecured $10 million demand bank credit facility with interest due on outstanding balances at a money market rate. This facility has not been used.

Accounts receivable decreased by approximately $9.7 million, or 34%, versus amounts recorded at March 28, 1998, reflecting decreased shipments associated with lower revenue levels in the third quarter of fiscal 1999. Inventories decreased by $3.6 million, or 16%, versus amounts recorded at March 28, 1998, due to decreased production in response to lower revenue levels in the first nine months of fiscal 1999. Property and equipment, net, increased by approximately $6.8 million, or 19%, versus amounts recorded at March 28, 1998, primarily due to construction in progress of additional corporate facilities. Accounts payable and accrued expenses remained approximately flat versus balances recorded at March 28, 1998, as decreased inventory expenditures were offset by the timing of payments for other expenses. Deferred income on sales to distributors decreased approximately $4.1 million, or 20%, associated with decreased inventory and resale levels at the distributors. Income taxes payable increased by $0.5 million, or 12%, as compared to the balance at March 28, 1998, primarily due to the timing of tax deductions and payments.

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

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

In March 1997, the Company entered into an advance payment production agreement with Seiko Epson and its affiliated U.S. distributor, Epson Electronics America, Inc., under which it agreed to advance approximately $86 million, payable upon completion of specific milestones, to Seiko Epson to finance construction of an eight-inch sub-micron wafer manufacturing facility. Under the terms of the agreement, the advance is to be repaid with semiconductor wafers over a multi-year period. The agreement calls for wafers to be supplied by Seiko Epson through Epson Electronics America, Inc. pursuant to purchase agreements with Epson Electronics America, Inc.

The Company also has an option under this agreement to advance Seiko Epson an additional $60 million for additional wafer supply under similar terms. The first payment pursuant to this agreement, approximately $17.0 million, was made during fiscal 1997. During fiscal 1998, the Company made two additional payments aggregating approximately $34.2 million. The balance of the advance payment is currently anticipated to be made in two installments during fiscal 2000.

On June 12, 1998, the Company's Board of Directors authorized management to repurchase up to 1.2 million shares of the Company's common stock. As of January 2, 1999, the Company had repurchased 337,500 shares at an aggregate cost of approximately $9.2 million.

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

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

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

PART II. OTHER INFORMATION

ITEM 6. Exhibits and Reports on Form 8-K

(a) Exhibits.

11.1	Computation of Net Income Per Share (1)
27	Financial Data Schedule for Nine Months Ended January 2, 1999

(b) No reports on Form 8-K were filed during the three months ended January 2, 1999.

(1) Incorporated by reference to Note 3 to the Consolidated Financial Statements in the Company's quarterly report on Form 10-Q for the three months ended January 2, 1999.

SIGNATURES

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

LATTICE SEMICONDUCTOR CORPORATION

Date: February 16, 1999	/s/ Stephen A. Skaggs
	By: Stephen A. Skaggs, Senior Vice President, Chief Financial Officer and Secretary

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9-MOS
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JAN-02-1999
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