

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 September 27, 1997

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 (I.R.S. Employer
of incorporation or organization) 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 September 27, 1997 there were 23,290,876 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		Six Months Ended	
	Sept. 27, 1997	Sept. 28, 1996	Sept. 27, 1997	Sept. 28, 1996
Revenue	\$ 64,068	\$ 48,638	\$ 125,688	\$ 96,806
Costs and expenses:				
Cost of products sold	25,903	19,995	50,931	39,833
Research and development	8,016	6,888	15,841	13,642
Selling, general and administrative	10,250	8,194	20,074	16,091
Total costs and expenses	44,169	35,077	86,846	69,566
Income from operations	19,899	13,561	38,842	27,240
Other income, net	2,722	2,168	5,246	4,198
Income before provision for income taxes	22,621	15,729	44,088	31,438
Provision for income taxes	7,691	5,269	14,990	10,530
Net income	\$ 14,930	\$ 10,460	\$ 29,098	\$ 20,908
Net income per share	\$ 0.62	\$ 0.46	\$ 1.22	\$ 0.92
Weighted average common and common equivalent shares outstanding	23,982	22,630	23,860	22,642

See accompanying Notes to Consolidated Financial Statements

LATTICE SEMICONDUCTOR CORPORATION

CONSOLIDATED BALANCE SHEET
(In thousands, except share data)

Assets	Sept. 27, 1997	March 29, 1997
	-----	-----
Current assets:	(unaudited)	
Cash and cash equivalents	\$ 83,703	\$ 53,949
Short-term investments	179,915	174,698
Accounts receivable	25,752	25,940
Inventories	23,166	27,809
Prepaid expenses and other current assets	10,980	16,519
Deferred income taxes	12,350	11,725
	-----	-----
Total current assets	335,866	310,640
Foundry investments, advances and other assets	82,860	65,419
Property and equipment, net	29,515	27,403
	-----	-----
	\$ 448,241	\$ 403,462
	-----	-----
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable and accrued expenses	\$ 24,008	\$ 23,924
Deferred income on sales to distributors	20,448	18,265
Income taxes payable	277	782
	-----	-----
Total current liabilities	44,733	42,971
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, 23,290,876 and 22,877,724 shares issued and outstanding	233	229
Paid-in capital	212,582	198,667
Retained earnings	190,693	161,595
	-----	-----
Total stockholders' equity	403,508	360,491
	-----	-----
	\$ 448,241	\$ 403,462
	-----	-----
	-----	-----

See accompanying Notes to Consolidated Financial Statements.

LATTICE SEMICONDUCTOR CORPORATION

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

	Six Months Ended	
	Sept. 27, 1997	Sept. 28, 1996
Cash flows from operating activities:		
Net income	\$ 29,098	\$ 20,908
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	4,738	4,060
Changes in assets and liabilities:		
Accounts receivable	188	2,590
Inventories	4,643	(6,598)
Prepaid expenses and other assets	(2,618)	(367)
Wafer supply advance	(9,284)	9,248
Deferred income taxes	(625)	(1,500)
Accounts payable and other accrued expenses	84	(1,574)
Deferred income	2,183	(2,880)
Income taxes payable	(505)	(2,586)
	(1,196)	393
Total adjustments		
Net cash provided by operating activities	27,902	21,301
Cash flows from investing activities:		
Purchase of short-term investments, net	(5,217)	(26,682)
Capital expenditures	(6,850)	(7,683)
	(12,067)	(34,365)
Net cash used by investing activities		
Cash flows from financing activities:		
Net proceeds from issuance of stock	13,919	3,814
	13,919	3,814
Net cash provided by financing activities		
Net increase (decrease) in cash and cash equivalents	29,754	(9,250)
Beginning cash and cash equivalents	53,949	54,600
	\$ 83,703	\$ 45,350
Ending cash and cash equivalents		

See accompanying Notes to Consolidated Financial Statements.

LATTICE SEMICONDUCTOR CORPORATION

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 29, 1997.

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

(2) Revenue Recognition

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

(3) Net Income Per Share

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

(4) Inventories (in thousands):	Sept. 27, 1997	March 29, 1997
	-----	-----
Work in progress	\$15,216	\$20,286
Finished goods	7,950	7,523
	-----	-----
	\$23,166	\$27,809
	-----	-----
	-----	-----

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

	Common Stock	Paid-in Capital	Retained Earnings	Total
	-----	-----	-----	-----
Balances, March 29, 1997	\$ 229	\$198,667	\$161,595	\$360,491
Stock option exercises	4	13,921	--	13,925
Other	--	(6)	--	(6)
Net income for the six-month period	--	--	29,098	29,098
	-----	-----	-----	-----
Balances, Sept. 27, 1997	\$ 233	\$212,582	\$190,693	\$403,508
	-----	-----	-----	-----
	-----	-----	-----	-----

(6) Contingencies:

The Company is exposed to certain asserted and unasserted potential claims. Patent and other proprietary rights infringement claims are common in the semiconductor industry and the Company has received a letter from a semiconductor manufacturer stating that it believes certain patents held by it cover products previously sold by the Company. While the manufacturer has offered to license certain of such patents to the Company, there can be no assurance that, on this or any other claim which may be made against the Company, the Company could obtain a license on terms or under conditions that would be favorable to the Company. Management believes that the disposition of these claims will not have a material adverse effect on the Company's financial position or results of operations.

(7) Subsequent Event:

In October 1997, the Company's joint venture foundry, United Integrated Circuit Corporation ("UICC"), was substantially destroyed by fire. United Microelectronics Corporation ("UMC"), the majority owner of UICC, has informed the Company that this loss is fully insured, that it intends to rebuild the foundry, and that it will make alternative foundry capacity available to the Company during the rebuilding period. Based on these assurances from UMC, management believes the Company will not be materially adversely affected by this event.

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 \$64.1 million and \$48.6 million for the second quarter of fiscal 1998 and 1997, respectively. Revenue for the first six month period of fiscal 1998 was \$125.7 million, as compared to \$96.8 million for the first six month period of fiscal 1997. The majority of the Company's revenue in both fiscal quarters was derived from the sale of products that address the in-system programmable ("ISP-TM-") segment of the CMOS programmable logic market. The majority of the Company's revenue growth for the periods presented resulted from the sales of new products, primarily ISP products. Increases in the sales of the Company's ISP products have been significant and have grown consistently as a percentage of the Company's overall revenue.

Revenue from international sales was 53% and 51% of total revenue in the second quarter and first six month period of fiscal 1998, respectively, as compared to 48% and 47% in the second quarter and first six month period of fiscal 1997. The Company expects export sales to continue to represent a significant portion of revenue. See "Factors Affecting Future Results".

Overall average selling prices increased in the second quarter and the first six month period of fiscal 1998 as compared to the second quarter and the first six month period of fiscal 1997. This was due primarily to product mix changes. Although selling prices of mature products generally decline over time, this decline is at times offset by higher selling prices of new products. The Company's ability to maintain its recent trend of revenue growth is in large part dependent on the continued development, introduction and market acceptance of new products. See "Factors Affecting Future Results".

GROSS MARGIN

The Company's gross margin as a percentage of revenue was 59.6% in the second quarter of fiscal 1998 as compared to 58.9% in the second quarter of fiscal 1997. For the first six month period of fiscal 1998, the gross margin was 59.5%, an increase from 58.9% in the first six month period of fiscal 1997. These increases in gross margin percentage were primarily due to changes in product mix and reductions in the Company's manufacturing costs.

RESEARCH AND DEVELOPMENT

Research and development expense increased by approximately \$1.1 million, or 16%, in the second quarter of fiscal 1998 when compared to the second quarter of fiscal 1997, and increased \$2.2 million, or 16%, in the first six month period of fiscal 1998 when compared to the first six month period of fiscal 1997. As a percentage of revenue, this expense decreased to approximately 13% in the second quarter and the first six month period of fiscal 1998 from approximately 14% in the second quarter and the first six month period of fiscal 1997. The spending increases were related primarily to the development of new technologies and new products, including the Company's ISP product families and related software development tools. The Company believes that a continued commitment to research and development is essential in order to maintain product leadership in its existing product families and to provide innovative new product offerings, and therefore expects to continue to make significant investments in research and development in the future.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSE

Selling, general and administrative expense increased by approximately \$2.1 million, or 25%, in the second quarter of fiscal 1998 when compared to the second quarter of fiscal 1997, and increased by \$4.0 million, or 25%, in the first six month period of fiscal 1998 when compared to the first six month period of fiscal 1997. This increase was primarily due to expansion of the Company's sales force and higher sales commissions associated with the higher revenue levels. As a percentage of revenue, selling, general and administrative expense decreased to approximately 16% for the second quarter and the first six month period of fiscal 1998, from approximately 17% for the second quarter and first six month period of fiscal 1997.

INTEREST AND OTHER INCOME

Interest and other income (net of expense) increased to approximately \$2.7 million for the second quarter of fiscal 1998 from approximately \$2.2 million for the second quarter of fiscal 1997, and to \$5.2 million for the first six month period of fiscal 1998 from \$4.2 million for the first six month period of fiscal 1997. This increase was due to higher cash and investment balances resulting from cash generated from operations and common stock issuance from employee stock option exercises.

PROVISION FOR INCOME TAXES

The Company's effective tax rate was 34.0% for the second quarter and the first six month period of fiscal 1998 as compared to 33.5% for the second quarter and the first six month period of fiscal 1997. This increase is due primarily to a change in the proportion of tax-exempt investment income as a percentage of the Company's overall net income.

Deferred tax asset valuation allowances are recorded to offset deferred tax assets that can only be realized by earning taxable income in distant future years. Management established the valuation allowances because it

cannot determine if it is more likely than not that such income will be earned.

FACTORS AFFECTING FUTURE RESULTS

The Company believes that its future operating results will be subject to quarterly variations based upon a wide variety of factors, including the cyclical nature of both the semiconductor industry and the end markets addressed by the Company's products, the timing of new product introductions, price erosion, product obsolescence, substantial adverse currency exchange rate movements, variations in product mix, scheduling, rescheduling and cancellation of large orders, competitive factors, the availability of manufacturing capacity and wafer supply, the ability to achieve volume production at Seiko Epson Corporation's ("Seiko Epson") new eight-inch facility or United Integrated Circuit Corporation ("UICC"), the ability to develop and implement new process technologies, fluctuations in manufacturing yields, changes in effective tax rates and 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 increased its level of operating expenses and investment in manufacturing capacity in anticipation of future growth in revenues, primarily from increased sales of its ISP products. To the extent that this revenue growth does not materialize, the Company's operating results would be adversely affected.

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.

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 and 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 Company does not manufacture finished silicon wafers. Its products, however, 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 being manufactured by Seiko Epson in Japan and United Microelectronics Corporation ("UMC") in Taiwan. A significant interruption in supply from Seiko Epson through S MOS, Seiko Epson's affiliated U.S. distributor, or from UMC, could have a material adverse effect on the Company's business.

Worldwide manufacturing capacity for silicon wafers is limited and inelastic. Therefore, significant increases in demand or interruptions in supply could adversely affect the Company. Although current commitments are anticipated to be adequate through fiscal 1998, there can be no assurance that existing capacity commitments will be sufficient to permit the Company to satisfy all of its customers' demand in future periods. The Company negotiates wafer prices and certain wafer supply commitments with Seiko Epson, S MOS and UMC on an annual basis, and, in some cases as frequently as semiannually. Moreover, wafer prices and commitments are subject to continuing review and revision by the parties. There can be no assurance that Seiko Epson, S MOS or UMC will not reduce their allocations of wafers or increase prices to the Company in future periods or that any such reduction in supply could be offset pursuant to arrangements with alternate sources of supply. If any substantial reduction of supply or substantial price increase were to occur, the Company's operating results could be materially adversely affected.

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

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 suppliers. The manufacture of high performance E(2)CMOS semiconductor wafers is a complex process that requires a high degree of technical skill, state-of-the-art equipment and effective cooperation between the wafer supplier and the circuit designer to produce acceptable yields. Minute impurities, errors in any step of the fabrication process, defects in the masks used to print circuits on a wafer and other factors can cause a substantial percentage of wafers to be rejected or numerous die on each wafer to be non-functional. As is common in the semiconductor industry, the Company has from time to time experienced in the past, and expects that it will experience in the future, production yield problems and delivery delays. Any prolonged inability to obtain adequate yields or deliveries could adversely affect the Company's operating results.

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

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

The Company's finished silicon wafers are assembled and packaged by independent subcontractors in the Philippines, South Korea, Malaysia, Hong Kong, 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 stoppage or other failure of these contractors to supply finished products 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 on a timely basis that meet a market need at a competitive price and with acceptable margins as well as enhancing the performance of its existing products. The success of new products, including the Company's ISP product families, depends on a variety of factors, including product definition, 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 defining, developing, manufacturing, marketing and selling new products.

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

The semiconductor industry is intensely competitive and is characterized by rapid technological change, sudden price fluctuations, general price erosion, rapid rates of product obsolescence, periodic shortages of materials and manufacturing capacity and variations in manufacturing costs and yields. The Company's competitive position is affected 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 affect 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.

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

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. The Company has received a letter from a semiconductor manufacturer stating that it believes a number of its patents, related to product packaging, cover certain products previously sold by the Company. While the manufacturer has offered to license certain of such patents to the Company, there can be no assurance on this or any other claim which may be made against the Company, that the Company could obtain a license on terms or under conditions that would be favorable to the Company. In addition, there can be no assurance that other intellectual property claims will not be made against the Company in the future or that the Company will not be prohibited from using the technologies subject to such claims or be required to obtain licenses and make corresponding royalty payments for past or future use.

International revenues accounted for 51% and 47% of the Company's revenues for the six month periods of fiscal 1998 and fiscal 1997, respectively. The Company believes that international revenues will continue to represent a significant percentage of revenues. International revenues and operations may be adversely affected by the imposition of governmental controls, export license requirements, restrictions on the export of technology, political instability, trade restrictions, changes in tariffs and difficulties in staffing and managing international operations.

The 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 new product, both silicon and software, and process technology development. 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 currently depends on foreign manufacturers -- Seiko Epson, a Japanese company, and UMC, a Taiwanese company -- for the manufacture of all its finished silicon wafers, and anticipates depending on UICC, a

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

LIQUIDITY AND CAPITAL RESOURCES

As of September 27, 1997, the Company's principal source of liquidity was \$263.6 million of cash and short-term investments, an increase of approximately \$35.0 million from the balance of \$228.6 million at March 29, 1997. This increase was primarily the result of cash generated from operations and common stock issuance from employee stock option exercises. The Company also has available an unsecured \$10 million demand bank credit facility with interest due on outstanding balances at a money market rate. This facility has not been used.

Inventories decreased by \$4.6 million, or 17%, versus amounts recorded at March 29, 1997 to support an increase in shipments associated with higher revenue levels in the first six month period of fiscal 1998. Prepaid expenses and other current assets decreased by \$5.5 million, or 34%, as compared to the balance at March 29, 1997 due primarily to a decrease in the current portion of wafer supply advances. Deferred income on sales to distributors increased approximately \$2.2 million, or 12%, associated with increased resale activity at the distributors. Income taxes payable decreased by \$0.5 million, or 65%, as compared to the balance at March 29, 1997 primarily due to the timing of tax deductions and payments.

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

The Company entered into a series of agreements with UMC in September 1995 pursuant to which the Company has 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 is committed to invest approximately \$53 million, payable in three installments over two years, for approximately a 10% equity interest in UICC and the right to receive a percentage of the facility's wafer production at market prices. The first payment, in the amount of approximately \$13.7 million, was paid in January 1996, the second payment, in the amount of approximately \$25.8 million, was paid during January 1997,

and the final payment is anticipated to be required by the end of calendar 1997.

In March 1997, the Company entered into a second advance payment production agreement with Seiko Epson and its affiliated U.S. distributor, S MOS, under which it agreed to advance approximately \$90 million, payable over two years, to Seiko Epson to finance construction of an eight-inch sub-micron wafer manufacturing facility. Under the terms of the agreement, the advance is to be repaid with semiconductor wafers over a multi-year period. The agreement calls for wafers to be supplied by Seiko Epson through S MOS pursuant to purchase agreements with S MOS. The Company also has an option under this agreement to advance Seiko Epson an additional \$60 million for additional wafer supply under similar terms. The first payment pursuant to this agreement, approximately \$17.0 million, was made during March 1997, and the second payment, also approximating \$17.0 million, was made in September 1997. As a result of the future payments to UICC and Seiko Epson, the Company's cash and short-term investments will be reduced by approximately \$70 million over the time period of the remaining payments.

The Company currently anticipates capital expenditures of approximately \$20 to \$30 million for the fiscal year ending March 28, 1998. A significant portion is planned for improvements and expansions to the Company's facilities and manufacturing capacity.

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

In an effort to secure additional wafer supply, the Company may from time to time enter various financial arrangements including joint ventures with, minority investments in, advance purchase payments to, loans to, or similar arrangements with independent wafer manufacturers in exchange for committed wafer capacity. To the extent the Company pursues any such financial 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 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

- (a) The annual meeting of stockholders was held on August 11, 1997.
- (b) The following directors were elected at the meeting to serve a term of three years:

Daniel S. Hauer
Douglas C. Strain

The following directors are continuing to serve their terms:

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

- (c) The matters voted upon at the meeting and results of the voting with respect to those matters are as follows:

	For -----	Withheld -----		
(1) Election of directors:				
Daniel S. Hauer	21,775,615	185,519		
Douglas C. Strain	21,777,079	184,055		
	For -----	Against -----	Abstain -----	Not Voted -----
(2) Approval of Amendment to Employee Stock Purchase Plan	21,815,519	64,538	18,622	62,455
(3) Ratification of Price Waterhouse LLP as the Company's independent public accountant for the fiscal year ending March 28, 1997	21,936,317	9,196	15,621	0

The foregoing matters are described in further detail in the Company's definitive proxy statement dated July 1, 1997, for the Annual Meeting of Stockholders held on August 11, 1997.

ITEM 6. Exhibits and Reports on Form 8-K

(a) Exhibits.

11.1 Computation of Net Income Per Share

27 Financial Data Schedule for Six Months Ended
September 27, 1997

(b) No reports on Form 8-K were filed during the six months ended
September 27, 1997.

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: November 10, 1997

/s/ Stephen A. Skaggs

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

LATTICE SEMICONDUCTOR CORPORATION

COMPUTATION OF NET INCOME PER SHARE
(In thousands, except per share data)
(unaudited)

	Three Months Ended		Six Months Ended	
	Sept. 27, 1997	Sept. 28, 1996	Sept. 27, 1997	Sept. 28, 1996
Net income	\$ 14,930	\$10,460	\$29,098	\$20,908
Weighted average common stock and common stock equivalents:				
Common stock	23,216	22,319	23,111	22,253
Options and warrants	766	311	749	389
	23,982	22,630	23,860	22,642
Net income per share	\$ 0.62	\$ 0.46	\$ 1.22	\$ 0.92

6-MOS

	MAR-28-1998	
	MAR-30-1997	
	SEP-27-1997	
		83,703
		179,915
		25,752
		840
		23,166
	335,866	
		73,394
	43,879	
	448,241	
44,733		
		0
0		
		0
		233
	403,275	
448,241		
		64,068
	64,068	
		25,903
	44,169	
	0	
	0	
	(2,722)	
	22,621	
	7,691	
14,930		
	0	
	0	
		0
	14,930	
	0.62	
	0.62	