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 2, 2005

OR

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

For the transition period from to

Commission file number 000-18032

LATTICE SEMICONDUCTOR CORPORATION
(Exact name of Registrant as specified in its charter)

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

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

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

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

At May 9, 2005, there were 113,611,860 shares of the Registrant's common stock, $.01 par value, outstanding.

The information contained in this Form 10-Q is as of May 11, 2005. This Form 10-Q should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2004.

LATTICE SEMICONDUCTOR CORPORATION

INDEX

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

Condensed Consolidated Statement of Operations – Three Months Ended March 31, 2005 and March 31, 2004

Condensed Consolidated Balance Sheet – March 31, 2005 and December 31, 2004

Condensed Consolidated Statement of Cash Flows – Three Months Ended March 31, 2005 and March 31, 2004

Notes to Condensed Consolidated Financial Statements

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Item 4. Controls and Procedures

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

Item 6. Exhibits

Signatures

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, 2005	March 31, 2004
Revenue	$ 51,283	$ 59,071
Costs and expenses:		
Cost of products sold	22,171	24,719
Research and development	24,557	22,259
Selling, general and administrative	14,333	13,087
Amortization of intangible assets (1)	4,416	18,654
Total costs and expenses	65,477	78,719
Loss from operations	(14,194)	(19,648)
Other income, net	3,409	3,107
Loss before provision for income taxes	(10,785)	(16,541)
Provision for income taxes	100	—
Net loss	$ (10,885)	$ (16,541)
Basic net loss per share	$ (0.10)	$ (0.15)
Diluted net loss per share	$ (0.10)	$ (0.15)
Shares used in per share calculations:		
Basic	113,460	112,627
Diluted	113,460	112,627

(1) Includes $614 and $806 of amortization of deferred stock compensation expense for the three months ended March 31, 2005 and March 31, 2004, respectively, attributable to Research and Development activities.

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

LATTICE SEMICONDUCTOR CORPORATION

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

	March 31, 2005	December 31, 2004
Assets		
Current assets:		
Cash and cash equivalents	$ 40,403	$ 44,816
Marketable securities	212,809	251,479
Accounts receivable, net	24,940	19,587
Inventories	36,530	38,634
Other current assets	44,203	46,527
Total current assets	358,885	401,043
Foundry investments, advances and other assets	94,310	97,877
Property and equipment, net	45,708	47,586
Intangible assets, net	37,045	40,795
Goodwill	223,556	223,605
	$ 759,504	$ 810,906
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable and accrued expenses	$ 37,596	$ 61,138
Deferred income on sales to distributors	10,776	11,399
Income taxes payable	83	23
Total current liabilities	48,455	72,560
Zero Coupon Convertible Subordinated Notes due in 2010	153,500	169,000
Other long-term liabilities	27,347	26,755
Commitments and contingencies	—	—
Stockholders' equity:		
Preferred stock, $.01 par value, 10,000,000 shares authorized; none issued and outstanding	—	—
Common stock, $.01 par value, 300,000,000 shares authorized, 113,612,000 and 113,610,000 shares issued and outstanding	1,136	1,136
Paid-in capital	590,258	590,270
Deferred stock compensation	(1,233)	(1,867)
Accumulated other comprehensive (loss) income	(484)	1,642
Deficit	(59,475)	(48,590)
Total stockholders' equity	530,202	542,591
	$ 759,504	$ 810,906

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

LATTICE SEMICONDUCTOR CORPORATION

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

	Three Months Ended	
	March 31, 2005	March 31, 2004

Cash flows from operating activities:		
Net loss	**$ (10,885)**	**$ (16,541)**
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Depreciation and amortization	**9,164**	**24,499**
Gain on sale of UMC common stock	**—**	**(2,536)**
Gain on extinguishment of convertible notes	**(2,006)**	**—**
Changes in assets and liabilities:		
Accounts receivable	**(5,353)**	**783**
Inventories	**2,104**	**2,318**
Foundry investments, advances and other assets	**2,563**	**(1,825)**
Accounts payable and accrued expenses	**(23,543)**	**3,274**
Deferred income	**(623)**	**3,283**
Income taxes payable	**60**	**89**
Other liabilities	**449**	**(313)**
Total adjustments	**(17,185)**	**29,572**
Net cash (used in) provided by operating activities	**(28,070)**	**13,031**
Cash flows from investing activities:		
Proceeds from sales or maturities of marketable securities	**99,280**	**30,344**
Purchase of marketable securities	**(60,610)**	**(44,815)**
Proceeds from sale of equity securities (principally UMC common stock)	**—**	**9,250**
Capital expenditures	**(1,886)**	**(2,011)**
Net cash provided by (used in) investing activities	**36,784**	**(7,232)**
Cash flows from financing activities:		
Extinguishment of Zero Coupon Convertible Subordinated Notes	**(13,307)**	**—**
Advances on Yen Line of Credit	**1,811**	**—**
Pay down on Yen Line of Credit	**(1,639)**	**—**
Net proceeds from issuance of common stock	**8**	**528**
Net cash (used in) provided by financing activities	**(13,127)**	**528**
Net (decrease) increase in cash and cash equivalents	**(4,413)**	**6,327**
Beginning cash and cash equivalents	**44,816**	**35,276**
Ending cash and cash equivalents	**$ 40,403**	**$ 41,603**
Supplemental disclosures of cash flow information:		
Cash paid for income taxes (net)	**$ 114**	**$ —**
Cash paid for interest	**8**	**—**
Supplemental disclosures of non-cash investing and financing activities:		
Unrealized (loss) gain on (depreciation) appreciation of foundry investments included in Accumulated other comprehensive (loss) income	**$ (2,118)**	**$ 870**

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

LATTICE SEMICONDUCTOR CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1 - Basis of Presentation:

The accompanying condensed consolidated financial statements are unaudited and have been prepared by Lattice Semiconductor Corporation (“the Company”) pursuant to the rules and regulations of the Securities and Exchange Commission and in our opinion include all adjustments, consisting only of normal recurring adjustments, necessary for the fair statement of results for the interim periods. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. These condensed consolidated financial statements should be read in conjunction with our audited financial statements and notes thereto included in our annual report on Form 10-K for the year ended December 31, 2004. Prior period disclosures have been reclassified to the extent required to be consistent with the current period presentation.

The preparation of financial statements in conformity with generally accepted accounting principles requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the fiscal and interim 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 Loss Per Share:

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

The most significant difference between the computation of basic and diluted net income per share is that basic net income per share does not treat potentially dilutive securities such as stock options, warrants and convertible subordinated notes as outstanding. For all periods presented, the computation of net loss per share excludes the effect of our stock options, warrants and Zero Coupon Convertible Subordinated Notes due July 1, 2010, aggregating 17.0 million shares and 33.5 million shares for the three months ended March 31, 2005 and March 31, 2004, respectively, as they were antidilutive. A reconciliation of basic and diluted net loss per share is presented below (in thousands, except for per share data):

	Three months ended	
	Mar. 31, 2005	Mar. 31, 2004
Net loss	$ (10,885)	$ (16,541)
Shares used in basic net loss per share calculations	113,460	112,627
Dilutive effect of stock options, warrants and convertible notes	—	—
Shares used in diluted net loss per share	113,460	112,627
Basic net loss per share	$ (0.10)	$ (0.15)
Diluted net loss per share	$ (0.10)	$ (0.15)

Stock-Based Compensation

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

	Grants for the three months ended	
	Mar. 31, 2005	Mar. 31, 2004
Stock options:		
Expected volatility	45.8%	53.8%
Risk-free interest rate	3.4%	2.3%
Expected life from vesting date	1.2 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 $1.64 and $4.45 for the first quarters of 2005 and 2004, respectively. For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options’ vesting period.

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

	Three months ended Mar. 31, 2005	Three months ended Mar. 31, 2004
Net loss, as reported	$ (10,885)	$ (16,541)
Add: Stock based employee compensation expense included in reported loss	614	806
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards	(2,577)	(5,033)
Pro forma net loss	$ (12,848)	$ (20,768)
Net loss per share:		
Basic-as reported	$ (0.10)	$ (0.15)
Basic-pro forma	$ (0.11)	$ (0.18)
Diluted-as reported	$ (0.10)	$ (0.15)
Diluted-pro forma	$ (0.11)	$ (0.18)

Note 4 - Inventories (in thousands):

	Mar. 31, 2005	Dec. 31, 2004
Work in progress	$ 27,474	$ 29,148
Finished goods	9,056	9,486
	$ 36,530	$ 38,634

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

	Common Stock	Paid-in Capital	Deferred Stock Comp.	Accumulated Other Comprehensive Income (Loss)	Deficit	Total
Balances, Dec. 31, 2004	$ 1,136	$ 590,270	$ (1,867)	$ 1,642	$ (48,590)	$ 542,591
Common stock issued	—	8	—	—	—	8
Unrealized loss on foundry investments (Note 6)	—	—	—	(2,113)	—	(2,113)
Deferred stock compensation	—	(20)	20	—	—	—
Amortization of deferred stock compensation	—	—	614	—	—	614
Translation adjustment	—	—	—	(13)	—	(13)
Net loss for the three-month period	—	—	—	—	(10,885)	(10,885)
Balances, Mar. 31, 2005	$ 1,136	$ 590,258	$ (1,233)	$ (484)	$ (59,475)	$ 530,202

Total comprehensive loss for the first three-month period of 2005 was $13.0 million and substantially comprises a $10.9 million net loss from operations and a $2.1 million unrealized loss related to the market value of our foundry investments.

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

	Mar. 31, 2005	Dec. 31, 2004
Foundry investments and other assets	$ 68,942	$ 72,788
Wafer supply advances	60,493	62,181
	129,435	134,969
Less: UMC common stock available for sale	(22,895)	(24,202)
Current portion of wafer advance	(12,230)	(12,890)
	$ 94,310	$ 97,877

As of March 31, 2005, we owned 60.8 million shares of UMC common stock of which approximately 23.3 million are restricted by the terms of our agreement with UMC. Under the terms of the UMC agreement, if we sell any of these restricted shares, our rights to guaranteed wafer capacity at UMC may be reduced on a pro-rata basis based on the number of shares that we sell. If we sell over 10.1 million of these restricted shares, we may lose all of our rights to guaranteed wafer capacity at UMC.

We sold no UMC common stock in the first quarter of 2005 and we recorded a $2.1 million unrealized loss in Accumulated other comprehensive (loss) income due to the change in market value of our UMC common stock during the March 31, 2005 ending quarter. During the first three months of 2004, we sold 10 million shares of UMC common stock for a gain of $2.6 million of which $2.2 million was already recorded as an unrealized gain in Accumulated other comprehensive (loss) income. Also in the first quarter of 2004, we recorded a $0.9 million change in unrealized gain related to the market value of our

UMC common stock. If we liquidate our UMC common stock, it is likely that the amount of any future realized gain or loss will be different from the accounting gain or loss reported in prior periods.

Note 7 – Purchased Intangible Assets:

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

March 31, 2005	Gross	Accumulated amortization	Net
Current technology	$ 273.6	$ (248.1)	$ 25.5
Core technology	7.3	(3.8)	3.5
Licenses	10.2	(4.7)	5.5
Non-compete agreements	14.2	(14.0)	0.2
Workforce	4.7	(2.4)	2.3
Backlog	1.4	(1.4)	—
Customer list	17.4	(17.4)	—
Patents and trademarks	26.8	(26.8)	—
Total	$ 355.6	$ (318.6)	$ 37.0

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

The estimated future amortization expense of purchased intangible assets as of March 31, 2005 is as follows (in millions):

Fiscal Year:	Amount
2005 (remaining nine months)	$ 10.6
2006	10.8
2007	9.8
2008	5.6
Later years	0.2
	$ 37.0

The estimated future amortization expense of deferred stock compensation attributable to Research and Development activities as of March 31, 2005 is approximately $1.2 million for the remainder of 2005.

Note 8 - New Accounting Pronouncements:

In March 2004, the Emerging Issues Task Force reached a consensus on recognition and measurement guidance previously discussed under EITF 03-01. The consensus clarifies the meaning of other-than-temporary impairment and its application to investments classified as either available-for-sale or held-to-maturity under SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities." The recognition and measurement guidance for which the consensus was reached in the March 2004 meeting is to be applied to other-than-temporary impairment evaluations in reporting periods beginning after June 15, 2004. In November 2004, the FASB staff indicated that the FASB will delay until 2005 the FASB Staff Position on EITF Issue No. 03-01, "The Meaning of Other-Than-Temporary Impairment and its Application to Certain Investments." Management will evaluate the affect of adopting the recognition and measurement guidance when the matter is finalized.

In December 2004, the FASB issued a Statement "Share Based Payment—a revision of SFAS No. 123, Accounting for Stock Based Compensation", that addresses the accounting for share-based payment transactions in which a company receives employee services in exchange for either equity instruments of the company or liabilities that are based on the fair value of the company's equity instruments or that may be settled by the issuance of such equity instruments. The statement eliminates the ability to account for share-based compensation transactions using the intrinsic method currently used by the company and generally would require that such transactions be accounted for using a fair-value-based method and recognized as expense in the company's Consolidated Statement of Operations. The effective date of the standard is for fiscal years beginning after June 15, 2005. Accordingly, we will adopt the standard in January 2006. This statement will have a significant impact on our Consolidated Statement of Operations, as we will be required to expense the fair value of our stock option grants and stock purchases under our employee stock purchase plan. At this time we have not made an estimate of the impact of this statement on our future financial results. Please refer to Note 3 to our condensed consolidated financial statements which provides historical information that may be useful in assessing the impact of this standard on our condensed consolidated financial statements.

Note 9 - Legal Matters:

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

In September and October 2004, two shareholder derivative complaints were filed, purportedly on behalf of Lattice Semiconductor Corporation, in the Circuit Court of the State of Oregon for the County of Washington, against all members of the board of directors at that time, certain former directors, and certain executive officers. The derivative plaintiffs make allegations substantially similar to those in the putative class action complaints, as well as allegations of breach of fiduciary duty, abuse of control, gross mismanagement, waste of corporate assets, and unjust enrichment. Consistent with the usual procedures for cases of this kind, these cases were consolidated into a single putative shareholder derivative action. An amended and consolidated complaint was filed on April 1, 2005.

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

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

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, 2005	Three Months Ended Mar. 31, 2004
United States	$ 11,229	$ 17,868
Export sales:		
Europe	12,910	14,197
Asia Pacific (other than Japan and China)	9,873	9,598
Japan	7,233	6,822
China	5,956	7,283
Other	4,082	3,303
	40,054	41,203
	$ 51,283	$ 59,071

Resale of product through two distributors accounted for 14% and 9% of revenue in the first quarter of 2005, and 18% and 14%, respectively, for the first quarter of 2004. More than 90% of our property and equipment is located in the United States.

Note 11 - Subsequent Event:

In May 2005, we extinguished $10.0 million face value of our Zero Coupon Convertible Subordinated Notes due July 1, 2010 for $8.4 million in cash. We will report a gain in Other income net in our condensed consolidated financial statements for quarter ended June 30, 2005 of $1.5 million which is net of $0.1 million of related unamortized issuance costs for the extinguished Notes.

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

Lattice Semiconductor Corporation designs, develops and markets high performance programmable logic products and related software. Programmable logic products 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, 2005 Quarter

Revenue for our business declined 13% to $51.3 million in the first quarter of 2005 as compared to $59.1 million in the first quarter of 2004. The revenue decline is attributable to Mainstream* and Mature* products which declined 25% and 31%, respectively, as compared to revenue from New* products which grew 86%. Our revenue was adversely affected by a decline in business conditions beginning in the third quarter of 2004 which continued into the first quarter of 2005 attributable to a general weakening in the communications end market. Among other things, future revenue growth is dependent on overall economic conditions for our industry and market acceptance of our new FPGA products.

Our gross margin declined to 57% in the first quarter of 2005 as compared to 58% the first quarter of 2004. The change reflects a higher mix of New products, which currently carry a lower gross margin than other products.

Research and development expenses increased to $24.6 million (48% of revenue) in the first quarter of 2005 from $22.3 million (38% of revenue) in the first quarter of 2004. The increase represents mask and engineering wafer costs for the completion of new products. We expect to continue to make significant investments in research and development.

Selling, general and administrative expenses increased to $14.3 million (28% of revenue) in the first quarter of 2005 as compared to $13.1 million (22% of revenue) in the first quarter of 2004. The increase is primarily attributable to professional fees related to litigation.

Amortization of intangible assets declined to $4.4 million in the first quarter of 2005 compared to $18.7 million in the first quarter of 2004. The decline is from the completion, in the June 2004 quarter, of amortization of intangible assets from the 1999 Vantis acquisition.

Other income, net, was $3.4 million in the first quarter of 2005 as compared to $3.1 million in the first quarter of 2004. The increase in the March 2005 quarter as compared to the March 2004 quarter reflects higher interest rates in 2005, and a gain in 2005 on extinguishment of Zero Coupon Convertible Subordinated Notes due July 1, 2010 partially offset by a gain on sale of UMC common stock in 2004.

We are not currently paying federal or state income taxes and do not expect to pay or accrue such taxes in 2005. We expect to continue to pay foreign income taxes at current levels.

*** Product classification**

New:	**Lattice EC/P, FPSC, XPLD, XPGA, GDX2, ORCA 4, ispMACH 4000/Z, ispPAC-PWR, ispCLK**
Mainstream:	**ORCA 3, GDX/V, ispMACH L/V, ispLSI 2000V, ispLSI 5000V, ispLSI 8000V, ispMACH 5000 V/G, and Other**
Mature:	**ORCA 2, all 5-volt CPLDs, all SPLDs**

Results of Operations

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

	Three Months Ended	
	Mar. 31, 2005	Mar. 31, 2004
Revenue	100.0%	100.0%
Gross margin	56.8%	58.2%
Research and development expenses	47.9%	37.7%
Selling, general and administrative expenses	28.0%	22.2%
Amortization of intangible assets	8.6%	31.6%
Loss from operations	(27.7)%	(33.3)%

Revenue:

Revenue for the first quarter of 2005 was $51.3 million, a decrease of $7.8 million from the first quarter of 2004. The composition of our revenue by product classification for the first quarter of 2005 and the first quarter of 2004, respectively, was as follows:

	Three Months Ended	
	Mar. 31, 2005	Mar. 31, 2004
New	28%	13%
Mainstream	36%	43%
Mature	36%	44%

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

	Three Months Ended			
	Mar. 31, 2005		Mar. 31, 2004	
United States	$ 11,229	22%	$ 17,868	30%
Export sales:				
Europe	12,910	25%	14,197	24%
Asia Pacific (other than Japan and China)	9,873	19%	9,598	16%
Japan	7,233	14%	6,822	12%
China	5,956	12%	7,283	12%
Other	4,082	8%	3,303	6%
	40,054	78%	41,203	70%
	$ 51,283	100%	$ 59,071	100%

During the first quarter of 2005, total units sold declined 12% and average selling prices decreased by 1% when compared to the first quarter of 2004. The decrease in units sold was attributable to lower sales of Mature products due to the aforementioned business conditions. The decrease in average selling price was primarily due to product mix. Selling prices of semiconductor products generally decline over time. Higher selling prices of new products commonly offset some or all of this decline in average selling prices, however other product mix changes can also have a significant affect on average selling prices.

There was a decline in business conditions beginning in the third quarter of 2004 which continued into the first quarter of 2005 attributable to a general weakening in the communications end market. Geographically, as a percentage of revenue, export revenues were 78% in the March 31, 2005 quarter as compared to 70% in the March 31, 2004 quarter. Export revenues as a percentage of overall revenue increased in the March 31, 2005 quarter and revenues from the United States decreased in the March 31, 2005 quarter compared to the March 31, 2004 quarter due to the continuing trend by our customers to perform manufacturing offshore and relative business conditions in Asia compared to the U.S.

Our ability to achieve revenue growth is in large part dependent on the continued development, introduction and market acceptance of new products. See "Factors Affecting Future Results."

Gross margin:

Our gross margin declined to 57% in the first quarter of 2005 as compared to 58% in the first quarter of 2004. The change reflects a higher mix of New products which currently carry a lower gross margin than other products. To a lesser extent, this decrease in gross margin also reflects the increased proportion of fixed manufacturing costs as a result of lower revenue levels in the March 31, 2005 quarter as compared to the March 31, 2004 quarter.

Research and development:

Research and development expenses increased to $24.6 million (48% of revenue) in the first quarter of 2005 from $22.3 million (38% of revenue) in the first quarter of 2004. The increase primarily represents mask and engineering wafer costs for the completion of new products and to a lesser extent personnel related costs. We believe that a continued commitment to research and development is essential in order to maintain product leadership and provide innovative new product offerings, and therefore we expect to continue to make significant future investments in research and development. As we continue to move to more advanced process technologies such as 130nm, 90nm and beyond, mask costs are becoming increasingly more expensive and will therefore increasingly represent a greater proportion of total research and development expenses.

Selling, general and administrative expense:

Selling, general and administrative expenses increased to $14.3 million (28% of revenue) in the first quarter of 2005 as compared to $13.1 million (22% of revenue) in the first quarter of 2004. The increase is primarily attributable to professional fees related to litigation.

Amortization of intangible assets:

Amortization of intangible assets is related to our 2002 and 2001 acquisitions and our 1999 Vantis acquisition. Amortization of intangible assets declined to $4.4 million in the first quarter of 2005 compared to $18.7 million in the first quarter of 2004 as the intangible assets from the Vantis acquisition became fully amortized during the second quarter of 2004.

Other income, net:

Interest income was $1.7 million in the first quarter of 2005 compared to $0.8 million in the first quarter of 2004 as a result of higher interest rates.

Other income, net, of $3.4 million in the first quarter of 2005 included a $2.0 million gain on the extinguishment of $15.5 million of Zero Coupon Convertible Subordinated Notes due July 1, 2010 for $13.3 million in cash plus recognition of $0.2 million of unamortized issuance costs. Amortization of Zero Coupon Convertible Subordinated Notes due July 1, 2010 issuance costs was $0.3 million in the quarter.

Other income, net, of $3.1 million in the first quarter of 2004 included a gain on the sale of UMC common stock of $2.5 million, $0.4 million of amortization of issuance costs related to the Zero Coupon Convertible Subordinated Notes due July 1, 2010, and $0.2 million gain on foreign exchange and disposal of assets.

To the extent market conditions allow, we may make similar extinguishments of our convertible notes and sales of UMC common stock in future quarters.

Provision for income taxes:

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

Purchased intangible assets:

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

March 31, 2005	**Gross**	**Accumulated amortization**	**Net**
Current technology	$ 273.6	$ (248.1)	$ 25.5
Core technology	7.3	(3.8)	3.5
Licenses	10.2	(4.7)	5.5
Non-compete agreements	14.2	(14.0)	.2
Workforce	4.7	(2.4)	2.3
Backlog	1.4	(1.4)	—
Customer list	17.4	(17.4)	—
Patents and trademarks	26.8	(26.8)	—
Total	$ 355.6	$ (318.6)	$ 37.0

December 31, 2004	**Gross**	**Accumulated amortization**	**Net**
Current technology	$ 273.6	$ (245.5)	$ 28.1
Core technology	7.3	(3.4)	3.9
Licenses	10.2	(4.3)	5.9

Non-compete agreements	14.2	(13.8)	0.4
Workforce	4.7	(2.2)	2.5
Backlog	1.4	(1.4)	—
Customer list	17.4	(17.4)	—
Patents and trademarks	26.8	(26.8)	—
Total	$ 355.6	$ (314.8)	$ 40.8

The estimated future amortization expense of purchased intangible assets as of March 31, 2005 is as follows (in millions):

Fiscal Year:	Amount
2005 (remaining nine months)	$ 10.6
2006	10.8
2007	9.8
2008	5.6
Later years	0.2
	$ 37.0

The estimated future amortization expense of deferred stock compensation attributable to Research and Development activities as of March 31, 2005 is approximately $1.2 million for the remainder of 2005.

New Accounting Pronouncements:

In March 2004, the Emerging Issues Task Force reached a consensus on recognition and measurement guidance previously discussed under EITF 03-01. The consensus clarifies the meaning of other-than-temporary impairment and its application to investments classified as either available-for-sale or held-to-maturity under SFAS No. 115, “Accounting for Certain Investments in Debt and Equity Securities.” The recognition and measurement guidance for which the consensus was reached in the March 2004 meeting is to be applied to other-than-temporary impairment evaluations in reporting periods beginning after June 15, 2004. In November 2004, the FASB staff indicated that the FASB will delay until 2005 the FASB Staff Position on EITF Issue No. 03-01, “The Meaning of Other-Than-Temporary Impairment and its Application to Certain Investments.” Management will evaluate the affect of adopting the recognition and measurement guidance when the matter is finalized.

In December 2004, the FASB issued a Statement “Share Based Payment—a revision of SFAS No. 123, “Accounting for Stock Based Compensation,” that addresses the accounting for share-based payment transactions in which a company receives employee services in exchange for either equity instruments of the company or liabilities that are based on the fair value of the company’s equity instruments or that may be settled by the issuance of such equity instruments. The statement eliminates the ability to account for share-based compensation transactions using the intrinsic method currently used by the company and generally would

require that such transactions be accounted for using a fair-value-based method and recognized as expense in the company’s Consolidated Statement of Operations. The effective date of the standard is for fiscal years beginning after June 15, 2005. Accordingly, we will adopt the standard in January 2006. This statement will have a significant impact on our Consolidated Statement of Operations, as we will be required to expense the fair value of our stock option grants and stock purchases under our employee stock purchase plan. At this time we have not made an estimate of the impact of this statement on our future financial results. Please refer to Note 3 to our condensed consolidated financial statements which provides historical information that may be useful in assessing the impact of this standard on our condensed consolidated financial statements.

Liquidity and Capital Resources

As of March 31, 2005, our principal source of liquidity was $253.2 million of cash and marketable securities, which was approximately $43.1 million less than the balance of $296.3 million at December 31, 2004. This decrease was primarily due to a $25.0 million payment to Fujitsu pursuant to the Advance Payment Agreement entered into in September 2004 and the extinguishment of $15.5 million of Zero Coupon Convertible Subordinated Notes due July 1, 2010 for $13.3 million in cash. Working capital decreased to $310.4 million at March 31, 2005 from $328.5 million at December 31, 2004. This decrease was primarily attributable to the aforementioned Convertible Note extinguishments, timing differences in the payment of compensation costs and capital expenditures. During the March 31, 2005 quarter, we used $28.1 million of cash from operations which included the aforementioned $25.0 million Fujitsu payment and an increase in Accounts receivable.

Accounts receivable increased by $5.4 million to $24.9 million at March 31, 2005 as compared to $19.6 million at December 31, 2004. This increase reflects both higher billings in the March 31, 2005 quarter as compared to the December 31, 2004 quarter and the timing of billings in these two quarters.

Inventories decreased approximately $2.1 million, or 5%, to $36.5 million at March 31, 2005 compared to $38.6 million at December 31, 2004 primarily due to higher levels of shipments in the later portion of the March 31, 2005 quarter.

Other current assets declined by $2.3 million to $44.2 million at March 31, 2005 from $46.5 million at December 31, 2004 primarily reflecting the change in market value of UMC common stock in this account during the first quarter of 2005 and the change in anticipated receipt of prepaid wafers in the next year.

Foundry investments, advances and other assets decreased by $3.6 million to $94.3 million at March 31, 2005 as compared to $97.9 million at December 31, 2004 due a reclassification of prepaid wafers to current assets and a decline in the market value of UMC common stock in this account during the first quarter of 2005.

Property and equipment, less accumulated depreciation, decreased by $1.9 million to $45.7 million at March 31, 2005 compared to $47.6 million at December 31, 2004 due to lower expenditures for capital equipment.

Intangible assets, net, decreased by $3.8 million to $37.0 million at March 31, 2005 from $40.8 million at December 31, 2004 which is attributable to amortization of these assets.

Off-Balance Sheet Arrangements

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

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

We believe that our existing liquid resources and expected cash generated from operations combined with our ability to borrow additional funds will be adequate to meet our operating and capital requirements and obligations for the next 12 months. 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

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

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

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

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

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

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

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

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

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

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

The majority of our revenue is derived from customers in the communications equipment and computing end markets. Any deterioration in these end markets or any reduction in technology capital spending could lead to a reduction in demand for our products. For example, a general weakening in demand for our programmable logic products from our end customers in the communications end market beginning in the third quarter of 2004 has adversely affected our revenue. Whenever adverse economic or end market conditions exist, there is likely to be an adverse effect on our operating results.

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

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

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

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

We face risks related to pending litigation.

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

In September and October 2004, two shareholder derivative complaints were filed, purportedly on behalf of Lattice Semiconductor Corporation, in the Circuit Court of the State of Oregon for the County of Washington, against all members of the board of directors at that time, certain former directors, and certain executive officers. The derivative plaintiffs make allegations substantially similar to those in the putative class action complaints, as well as allegations of breach of fiduciary duty, abuse of control, gross mismanagement, waste of corporate assets, and unjust enrichment. Consistent with the usual procedures for cases of this kind, these cases were consolidated into a single putative shareholder derivative action. An amended and consolidated complaint was filed on April 1, 2005.

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

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

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

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

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

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 have the desired effect. In addition, we may be required to hire additional employees, and may experience higher than anticipated capital expenditures and operating expenses, during the implementation of these changes and thereafter. Furthermore, future assessments of our internal controls and procedures may reveal new material weaknesses or significant deficiencies. If we are unable to implement the changes to our internal controls and procedures effectively or efficiently, or if we discover additional material weaknesses or significant deficiencies, there could be a material adverse effect on our operations or financial results. Moreover, we could be subject to additional regulatory oversight and our business and reputation could be harmed.

Changes in accounting for equity compensation will adversely affect operating results and could adversely affect our ability to attract and retain employees.

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

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

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

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

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

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

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

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

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

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

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

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

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

- a high degree of technical skill;

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

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

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

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

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

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

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

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

- general economic conditions in the countries where we sell our products;
- conditions within the end markets into which we sell our products;
- the cyclical nature of demand for our customers’ products;
- excessive inventory accumulation by our end customers;
- the timing of our and our competitors’ new product introductions;
- product obsolescence;
- the scheduling, rescheduling and cancellation of large orders by our customers;
- our ability to develop new process technologies and achieve volume production at the fabs of Seiko Epson, UMC, Chartered Semiconductor, Fujitsu or at other foundries;
- changes in manufacturing yields including delays in achieving target yields on new products;
- adverse movements in exchange rates, interest rates or tax rates; and
- the availability of adequate supply commitments from our wafer foundries and assembly and test subcontractors.

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.

At March 31, 2005, our book value per share was $4.67, compared to our stock price which has ranged from a low of $4.26 per share to a high of $6.00 per share in the six months ended March 31, 2005. Presently, our stock price is trading near our consolidated book value. Should our stock price drop below book value for a sustained period, it may become necessary to record an impairment charge to goodwill which would reduce our results of operations.

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

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

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

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

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

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

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

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

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

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

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

Currently we hold substantial equity in UMC, which we acquired as part of a strategic investment to obtain certain manufacturing rights. The market price and valuation of these equity shares has fluctuated widely due to business, stock market or other conditions over which we have little control. During 2001, we recorded a pre-tax impairment loss related to this investment. In the future, UMC common stock may continue to experience significant price volatility. In 2002 and in 2004, we sold a portion of our UMC common stock, but have otherwise not attempted to reduce or eliminate this equity price risk through hedging or similar techniques. As a result substantial, sustained changes in the market price of UMC common stock could impact our financial results.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

Item 4. Controls and Procedures

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

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

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. Please read this disclosure in conjunction with the certifications attached as Exhibit 31.1 and 31.2 to this quarterly report for a more complete understanding of the topics presented.

Changes in Internal Control over Financial Reporting

There was no change in our internal control over financial reporting that occurred during the fiscal quarter covered by this quarterly report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II.   OTHER INFORMATION

Item 1. Legal Proceedings

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

In September and October 2004, two shareholder derivative complaints were filed, purportedly on behalf of Lattice Semiconductor Corporation, in the Circuit Court of the State of Oregon for the County of Washington, against all members of the board of directors at that time, certain former directors, and certain executive officers. The derivative plaintiffs make allegations substantially similar to those in the putative class action complaints, as well as allegations of breach of fiduciary duty, abuse of control, gross mismanagement, waste of corporate assets, and unjust enrichment. Consistent with the usual procedures for cases of this kind, these cases were consolidated into a single putative shareholder derivative action. An amended and consolidated complaint was filed on April 1, 2005.

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

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

Item 6. Exhibits.

(a) Exhibits

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.

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 11, 2005

By: /s/ Jan Johannessen
Jan Johannessen
Corporate Vice President and Chief Financial Officer

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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15(d)-15(f)) for the registrant and have:

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

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

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

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; 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 11, 2005

/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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15(d)-15(f)) for the registrant and have:

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

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

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

   (d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; 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 11, 2005

/s/ Jan Johannessen
Jan Johannessen
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 April 2, 2005 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Quarterly Report fairly presents, in all material respects, the financial condition and results of operations of Lattice Semiconductor Corporation.

By: /s/ Cyrus Y. Tsui

Date: May 11, 2005

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 April 2, 2005 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Quarterly Report fairly presents, in all material respects, the financial condition and results of operations of Lattice Semiconductor Corporation.

By: /s/ Jan Johannessen

Date: May 11, 2005

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