

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

COMMISSION FILE NUMBER: 0-18032

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED MARCH 30 1996 OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM TO

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

DELAWARE (State of Incorporation)	93-0835214 (I.R.S Employer Identification No.)
5555 NE MOORE COURT, HILLSBORO, OREGON (Address of principal executive offices)	97124-6421 (Zip Code)

Registrant's telephone number, including area code: (503) 681-0118

SECURITIES REGISTERED PURSUANT TO SECTION 12(B) OF THE ACT: NONE
SECURITIES REGISTERED PURSUANT TO SECTION 12(G) OF THE ACT:

Title of Class	Name of Exchange
Common Stock, \$.01 par value	NASDAQ
Preferred Share Purchase Rights	None

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

YES NO

As of June 13, 1996, the aggregate market value of the shares of voting stock of the Registrant held by non-affiliates was approximately \$558 million. Shares of Common Stock held by each officer and director and by each person who owns 5% or more of the outstanding Common Stock have been excluded in that such persons may be deemed affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

As of June 13, 1996, 22,261,102 shares of the Registrant's common stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

1. Portions of the Annual Report to Stockholders for the fiscal year ended March 30, 1996 are incorporated by reference in Part II hereof.

2. Portions of the definitive proxy statement of the Registrant to be filed pursuant to Regulation 14A for the 1996 Annual Meeting of Stockholders to be held on August 12, 1996 are incorporated by reference in Part III hereof.

LATTICE SEMICONDUCTOR CORPORATION
FORM 10-K
ANNUAL REPORT
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BUSINESS

This Report 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 "Factors Affecting Future Results" and elsewhere in this Report.

GENERAL

Lattice Semiconductor Corporation (the "Company") designs, develops and markets high performance programmable logic devices ("PLDs") and related development system software. The Company is the inventor and world's leading supplier of in-system programmable ("ISP-TM-") PLDs. PLDs are standard semiconductor components that can be configured by the end customer as specific logic functions. PLDs enable the end customer to shorten design cycle times and reduce development costs. Lattice was founded in 1983 and is based in Hillsboro, Oregon.

PLD MARKET BACKGROUND

Three principal types of digital integrated circuits are used in most electronic systems: microprocessors, memory and logic. Microprocessors are used for control and computing tasks, memory is used to store programming instructions and data, and logic is employed to manage the interchange and manipulation of digital signals within a system. Logic contains interconnected groupings of simple logical "AND" and logical "OR" functions, commonly described as "gates". Typically, complex combinations of individual gates are required to implement the specialized logic functions required for systems applications. While system designers use a relatively small number of standard architectures to meet their microprocessor and memory needs, they require a wide variety of logic circuits in order to achieve end product differentiation.

Logic circuits are found in a wide range of today's electronic systems including communications equipment, computers, peripherals, instrumentation, industrial controls and military systems. According to Dataquest Incorporated, a semiconductor market research firm, logic accounted for approximately 28% of the estimated \$113 billion worldwide digital integrated circuit market in 1995. The logic market encompasses, among other segments, standard transistor-transistor logic ("TTL"), custom-designed application specific integrated circuits ("ASICs", which include conventional gate-arrays, standard cells and full custom logic circuits), and PLDs. Logic is often classified by the number of gates per chip, with TTL typically containing up to 100 gates, PLDs offering up to 50,000 gates, and conventional gate arrays and custom logic circuits reaching up to several hundred thousand gates.

Manufacturers of electronic systems are increasingly challenged to bring differentiated products to market quickly. These competitive pressures often preclude the use of custom-designed ASICs, which generally entail significant design risks and time delay. Standard logic products, an alternative to custom-designed ASICs, limit a manufacturer's flexibility to adequately customize an end system. Programmable logic addresses this inherent dilemma. PLDs are standard products, purchased by systems manufacturers in a "blank" state, that can be custom configured into a virtually unlimited number of specific logic functions by programming the device with electrical signals. PLDs give system designers the ability to quickly create their own custom logic functions to provide product differentiation and rapid time to market. Certain PLD products, including the Company's, are reprogrammable, which means that the logic configuration can be modified, if needed, after the initial logic programming. A recent technology development, in-system programmability, extends the flexibility of standard reprogrammable PLDs by allowing the system designer to configure and reconfigure the logic functions of the PLD with standard 5-volt or 3.3-volt power supplies without removing the PLD from the system board.

Several common types of PLDs currently coexist in the marketplace, each offering customers a particular set of benefits. These include low-density PLDs (less than 1,000 gates) and high-density PLDs (greater than 1,000 gates). High-density PLDs include both complex PLDs ("CPLDs," up to 25,000 gates) and field programmable gate arrays ("FPGAs," up to 50,000 gates).

Low-density devices are typically based on industry standard architectures and include the GAL-Registered Trademark- ("Generic Array Logic") product family developed by the Company. These architectures are familiar to most system designers and are supported by standard widely available development tools. Offering the highest absolute performance and lowest cost per device, these products are the most effective PLD solution to support simple logic functions in all systems and complex logic functions in systems with fast clock rates, such as those supporting state-of-the-art microprocessors.

High-density devices are typically based on proprietary architectures and require support from sophisticated computer aided engineering ("CAE") development tools. Due to their higher levels of logic integration, absolute performance levels typically lag those of state-of-the-art low-density PLDs by one or more technology generations. However, in situations requiring complex logic functions, high-density PLDs can provide important advantages over the use of a large cluster of low-density devices. These advantages include system performance enhancement and power and cost savings.

CPLDs and FPGAs are the two primary types of high-density PLD architectures. CPLD and FPGA architectures are generally optimal for different types of logic functions, although many logic functions can be implemented with either architecture. CPLDs are characterized by a regular building block structure of wide-input logic cells, termed macrocells, and use of a centralized logic interconnect scheme. CPLDs are optimal for control logic applications, such as state machines, bus arbitration, encoders and decoders and sequencers. FPGAs are characterized by a narrow-input logic cell and use a distributed interconnect scheme. FPGAs are optimal for register intensive and data path logic applications such as interface logic and arithmetic functions. The Company believes that a substantial portion of high-density PLD customers utilize both CPLD and FPGA architectures within a single system design, partitioning logic functions across multiple devices to optimize overall system performance and cost.

TECHNOLOGY

The Company believes that electrically erasable CMOS ("E(2)CMOS-Registered Trademark-") is the preferred process technology for both high-density CPLDs and low-density PLDs due to its inherent performance, reprogrammability and testability benefits. E(2)CMOS, through its fundamental ability to be programmed and erased electronically, serves as the foundation for the Company's ISP technology.

IN-SYSTEM PROGRAMMABLE (ISP) TECHNOLOGY

The Company has pioneered the development of ISP, a proprietary technology, which affords it a competitive advantage in the high-density CPLD market. In contrast to standard PLD programming technologies, ISP allows the system designer to configure and reconfigure the PLD without removing the device from the system board. Standard E(2)CMOS programmable logic devices require 12-volt electrical signals and therefore must be removed from the printed circuit board and programmed using stand alone, specialized hardware, while ISP devices can be programmed with standard 5-volt or 3.3-volt electrical signals. ISP enhances the flexibility of PLDs, providing a number of important benefits to a system manufacturer across the full spectrum of an electronic system product cycle. ISP can allow customers to reduce design cycle times, accelerate time to market, reduce prototyping costs, reduce manufacturing costs and lower inventory requirements. ISP can also provide customers the opportunity to perform simplified and cost-effective field reconfiguration through a data file transferred by computer disk or telephone line. All of the Company's high-density CPLDs are available with ISP technology. The Company also offers its most popular low-density architecture, the GAL22V10, with ISP technology.

E(2)CMOS PROCESS TECHNOLOGY

The Company's current high- and low-density PLD offerings are based on the Company's proprietary E(2)CMOS manufacturing process technology, termed UltraMOS-Registered Trademark-. The Company's current production processes, UltraMOS IV, UltraMOS V and UltraMOS VI are sub-micron CMOS technologies.

In comparison to bipolar technology, at one time the dominant technology for low-density PLDs, E(2)CMOS technology consumes less power and generates less heat while operating at comparable speed. Additionally, in contrast to one-time-programmable bipolar PLDs, E(2)CMOS PLDs are fully erasable and reprogrammable, providing greater end customer design flexibility and allowing the PLD manufacturer to fully test all programmable elements in a device prior to shipment. An alternative CMOS technology, Erasable Programmable Read Only Memory ("EPROM"), provides the same low power consumption benefits as E(2)CMOS, but requires ultraviolet light exposure for erasure, necessitating expensive quartz windowed packages and limiting testability. Antifuse and Static Random Access Memory ("SRAM") technologies, used primarily in the manufacture of high-density FPGAs, offer certain advantages for very dense logic devices, but also have significant drawbacks when compared with E(2)CMOS. Antifuse technology is non-erasable, non-reprogrammable and subject to lengthy initial programming times that can hinder usage in volume production applications. SRAM technology is volatile (erases when electrical power is removed), and as such programmable SRAM FPGAs require additional non-volatile memory, typically on a separate device, to store programming code. This adds cost and printed circuit board area to a design, and results in the devices not being completely functional at initial system power-up.

PRODUCTS

HIGH-DENSITY CPLDS

SILICON. The Company first entered the high-density market in fiscal 1993 and currently offers four distinct families of ispLSI-Registered Trademark-products, each consisting of multiple devices. All devices are offered with ISP technology. The Company is currently shipping over 175 speed, package and temperature range combinations of high-density CPLDs.

ISPLSI 1000: The Company's original high-density family utilizes an innovative, proprietary architecture incorporating familiar GAL-like logic building blocks. This family offers performance of up to 110 MHz, with propagation delays as low as 10 nanoseconds, densities of 2,000 to 8,000 gates, and is available in surface mount packages ranging from 44- to 128-pins. In fiscal 1996, the Company introduced the ispLSI 1000E family, an enhancement of the ispLSI 1000 family based on a more advanced sub-micron process technology. The ispLSI 1000E family offers enhanced performance of up to 125 MHz, with propagation delays as low as 7.5 nanoseconds.

ISPLSI 2000: The ispLSI 2000 family utilizes an architecture designed for input/output ("I/O") intensive applications and offers industry leading CPLD performance. This family provides performance of up to 154 MHz, with propagation delays as low as 5.5 nanoseconds, densities of 1,000 to 6,000 gates, and 44- to 176-pin standard surface mount packages. The Company recently introduced the ispLSI 2000LV family, an extension of the ispLSI 2000 family, that operates using the emerging 3.3-volt power supply standard. Offered with a range of density, performance and package specifications, the ispLSI 2000LV family is targeted towards emerging high-growth, low-voltage system applications in the computing and communication markets.

ISPLSI 3000: The ispLSI 3000 family incorporates an enhanced logic architecture to target higher density applications while retaining high performance. It offers densities of 8,000 to 14,000 gates, and performance of up to 100 MHz, with propagation delays as low as 10 nanoseconds. Available in 128- to 304-pin surface mount packages, the 3000 family also incorporates boundary scan test, an attractive feature that provides enhanced testing capabilities important for complex systems.

ISPLSI 6000: Introduced in the first calendar quarter of 1996, the ispLSI 6000 family extends the Company's high-density CPLD density range to 25,000 gates. This family utilizes an innovative cell-based architecture that combines a general purpose high-density CPLD with memory and other

function specific circuit blocks. Offered with performance of up to 70 MHz, and with propagation delays as low as 15 nanoseconds, the ispLSI 6000 family allows integration of complete logic subsystems in the communications, computing and multimedia markets.

The Company plans to continue to introduce new families of high-density products, as well as improving the performance of existing product families, to meet market needs.

SOFTWARE DEVELOPMENT TOOLS. All of the Company's high-density products are supported by the Company's pDS-Registered Trademark- software development tools and pDS+-TM- software development tools (referred to as "fitters"). Designed to be a low cost, fully integrated development tool, pDS runs under the Microsoft Windows operating system on a personal computer. pDS software allows a customer to enter and verify a logic design, perform logic minimization, assign I/O pins and critical speed paths, and execute automatic place and route tasks. Designed to provide a low cost method to incorporate the Company's high-density CPLD products into standard development environments, pDS+ software leverages customers' existing investment in third-party CAE tools. pDS+ software supports all popular third party CAE development tool environments running on IBM compatible personal computers as well as workstations from Sun Microsystems and Hewlett-Packard. The Company offers pDS+ products supporting common third party CAE design tool environments, including Cadence, CUPL, Data I/O ABEL, Data I/O Synario, Exemplar, Isdata, Mentor Graphics, OrCAD, Synopsys and ViewLogic. In fiscal 1996, the Company released new versions of its existing pDS and pDS+ software development tools to enhance performance, functionality and ease of use.

The Company also provides several software algorithms that support in-system programming of the Company's ISP devices. These software products include ispCODE-TM-, ispDOWNLOAD-TM-, ispREMOTE-TM- and ispATE-TM-. ispATE enables ISP to be integrated into automatic test equipment ("ATE") on the manufacturing floor.

During fiscal 1996, the number of installed seats of the Company's software development tools, as measured by the Company, grew from over 5,000 to over 10,000. The Company plans to continue to enhance and expand its development tool offerings.

LOW-DENSITY PLDS

The Company offers the industry's broadest line of low-density CMOS PLDS based on its 16 families of GAL products offered in over 200 speed, power, package and temperature range combinations. GAL devices range in complexity from approximately 200 to 1,000 logic gates and are typically assembled in 20-, 24- and 28-pin standard dual in-line packages and in 20- and 28-pin standard plastic leaded chip carrier packages. The Company offers the industry standard GAL16V8, GAL20V8, GAL22V10, GAL20RA10 and GAL20XV10 architectures in a variety of speed grades, with propagation delays as low as 3.5 nanoseconds, the highest performance in the industry. The Company extended its GAL line by introducing a family of 3.3-volt industry standard architectures, the GAL16LV8, GAL20LV8 and the GAL22LV10 in a variety of speed grades, with propagation delays as low as 3.5 nanoseconds, the highest performance in the industry. Offered with a range of power consumption specifications, these devices are targeted towards emerging high-growth, low-voltage system applications in the computing and communication markets. The Company is currently selling the GAL16LV8D-3.5, the world's fastest PLD available in any technology or operating voltage. The Company also offers several innovative proprietary extension architectures, the ispGAL22V10, GAL26CV12, GAL18V10, GAL16VP8, GAL20VP8, GAL6001/2, GAL16V8Z and GAL20V8Z, each of which is optimized for specific applications. These product families offer industry leading performance levels, typically with propagation delays as low as 7.5 nanoseconds.

The Company plans to continue to maintain a broad offering of performance leadership, standard and proprietary architecture low-density CMOS PLDS.

The Company's GAL products are supported by industry standard software and hardware development tools marketed by independent manufacturers specifically for PLD applications.

PRODUCT DEVELOPMENT

The Company places great emphasis on product development and believes that continued investment in the development of new products that exploit market trends is required to maintain its competitive position. The Company's product development activities emphasize new high-density PLDs, improvements of its proprietary E(2)CMOS processes and ISP technologies, performance enhancement and cost reduction of existing products, and extension and enhancement of its software development tools. Product development activities occur in the Company's Hillsboro, Oregon headquarters, its Milpitas, California product development center, and its Shanghai, China design center.

Research and development expenses were \$20.6 million, \$22.9 million and \$26.8 million in fiscal years 1994, 1995 and 1996, respectively. The Company expects to continue to make significant investments in research and development in the future.

OPERATIONS

The Company does not manufacture its silicon wafers. The Company has historically maintained strategic relationships with large semiconductor manufacturers in order to source its finished silicon wafers, allowing the Company to focus its internal resources on product, process and market development. In addition, assembly is performed for the Company by outside suppliers. The Company performs most test operations and all reliability and quality assurance processes internally, as the Company believes it can add significant customer value in these areas. The Company has achieved ISO 9001 quality certification, an indication of the Company's high internal operational standards.

WAFER FABRICATION

Substantially all of the Company's silicon wafer requirements are currently supplied by Seiko Epson Corporation ("Seiko Epson") in Japan pursuant to an agreement with S MOS Systems Inc. ("S MOS"), an affiliated U.S. distributor of Seiko Epson. See "Licenses and Agreements -- Seiko Epson/S MOS." The Company negotiates wafer volumes, prices and terms with Seiko Epson and S MOS on a periodic basis. In addition, the Company entered into a series of agreements with United Microelectronics Corporation ("UMC") in September 1995 pursuant to which the Company agreed to join UMC and several other companies to form a separate Taiwanese company, United Integrated Circuits Corporation ("UICC"), for the purpose of building and operating an advanced semiconductor manufacturing facility in Taiwan, Republic of China. Under the terms of the agreements, the Company will receive rights to purchase at market prices a percentage of the facility's wafer production. In a related agreement, UMC committed to supply the Company with sub-micron wafers beginning in the first calendar quarter of 1996 and continuing with phased increases for several years, until such capacity is available from the new facility. The Company received the first of such wafers during fiscal 1996. Wafer prices and other purchase terms related to this commitment will be subject to periodic adjustment. See "Licenses and Agreements - - - UMC." A significant interruption in supply from Seiko Epson through S MOS or from UMC would have a material adverse effect on the Company's business. See "Factors Affecting Future Results."

ASSEMBLY

After wafer fabrication and initial testing, the Company ships wafers to independent subcontractors for assembly. During assembly, wafers are separated into individual die and encapsulated in plastic or ceramic packages. Presently, the Company has qualified long-term assembly partners in Hong Kong, Malaysia, the Philippines, South Korea and the United States.

TESTING

The Company electrically tests the die on each wafer prior to shipment for assembly. Following assembly, prior to customer shipment, each product undergoes final testing using sophisticated test equipment, techniques and quality assurance procedures developed by the Company. Final testing on certain products is performed at independent contractors in Malaysia, the Philippines, South Korea and the United States.

MARKETING, SALES AND CUSTOMERS

The Company sells its products directly to end customers through a network of independent sales representatives and indirectly through a network of distributors. The Company utilizes a direct sales management and field applications engineering organization in combination with manufacturers representatives and distributors to reach a broad base of potential end customers. The Company's end customers are primarily original equipment manufacturers in the fields of communications, computing, peripherals, instrumentation, industrial controls and military systems. The Company believes its distribution channel is a cost-effective means of reaching end customers.

At March 30, 1996, the Company had 19 sales representatives and five distributors in the United States and Canada. In North America, Arrow Electronics, Inc., Hamilton Hallmark, Insight Electronics, Inc. and Marshall Industries provide nationwide distribution, while Future Electronics provides regional distribution coverage in Canada. The Company has established sales channels in over 25 foreign countries through a network of over 30 sales representatives and distributors. Approximately one-half of the Company's North American sales and most of its foreign sales are made through distributors.

The Company protects each of its North American distributors and some of its foreign distributors against reductions in published prices, and expects to continue this policy in the foreseeable future. The Company also allows returns from these distributors of unsold products under certain conditions. For these reasons, the Company does not recognize revenue until products are resold by these distributors.

The Company provides technical and marketing assistance to its end customers and sales force with engineering staff based in the Company's headquarters, design centers and selected field sales offices. The Company maintains 20 domestic and international sales offices where the Company's field sales managers and applications engineers are based. These offices are located in the metropolitan areas of Atlanta, Austin, Boston, Chicago, Dallas, Denver, Los Angeles, Minneapolis, Orlando, Portland, Raleigh, San Diego, San Jose, Hong Kong, London, Munich, Paris, Seoul, Taipei and Tokyo.

International revenues, including those from Canada, accounted for 43%, 47% and 48% of the Company's revenues in fiscal 1994, 1995 and 1996 respectively. Revenues from Europe were \$16.1 million, \$24.5 million and \$37.9 million, and from Asia were \$34.3 million, \$40.6 million and \$ 52.4 million, in fiscal 1994, 1995 and 1996 respectively. Both international and domestic revenues are generally invoiced in U.S. dollars with the exception of sales in Japan which are invoiced in yen.

The Company's products are sold to a large and diverse group of customers. Two distributors accounted for approximately 12% and 10% of revenue in fiscal 1994 and approximately 12% and 11% of revenue in fiscal 1995. One distributor accounted for approximately 11% of revenue in fiscal 1996. No individual customer accounted for more than 5% of revenue in fiscal 1996.

The Company's sales are primarily executed against purchase orders for standard products. Customers frequently revise quantities and delivery schedules, without penalty. The Company therefore does not believe that backlog as of any given date is indicative of future revenue.

COMPETITION

The semiconductor industry overall is intensely competitive and is characterized by rapid technological change, rapid rates of product obsolescence and price erosion. The Company's current and potential competitors include a broad range of semiconductor companies, ranging from very large, established companies to emerging companies, many of which have greater financial, technical, manufacturing, marketing and sales resources than the Company.

The principal competitive factors in the CMOS PLD market include product features, price, customer support, and sales, marketing and distribution strength. In the high-density segment, the availability of competitive software development tools is also critical. In addition to product features such as speed, power consumption, reprogrammability, design flexibility and reliability, competition in

the PLD market occurs on the basis of price and market acceptance of specific products and technology. The Company believes that it competes favorably with respect to each of these factors. The Company intends to continue to address these competitive factors by working to continually introduce product enhancements and new products, by seeking to establish its products as industry standards in their respective markets, and by working to reduce the manufacturing cost of its products over their life cycle.

In the high-density PLD market, the Company primarily competes directly with Advanced Micro Devices ("AMD") and Altera, both of which offer competing CPLD products. The Company also competes indirectly with manufacturers of FPGA devices such as Actel, AT&T, and Xilinx as well as other semiconductor companies providing non-PLD based logic solutions. As the Company and these other companies seek to expand their markets, competition may increase.

In the low-density PLD market, the Company competes primarily with AMD, a licensee of the Company's GAL patents, which offers a full line of E(2)CMOS GAL-compatible PLDs. Altera, Atmel and Cypress Semiconductor offer products based on similar and competing CMOS technologies and architectures, however, these companies do not offer full product lines.

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. Any such increases in competition could have a material adverse effect on the Company's operating results.

PATENTS

The Company seeks to protect its products and wafer fabrication process technology primarily through patents, trade secrecy measures, copyrights, mask work protection, trademark registrations, licensing restrictions, confidentiality agreements and other approaches designed to protect proprietary information. There can be no assurance that others may not independently develop competitive technology not covered by the Company's patents or that measures taken by the Company to protect its technology will be effective.

The Company holds 34 domestic and European patents on its PLD products and has a number of patent applications pending in the United States, Japan and under the European Patent Convention. There can be no assurance that pending patent applications or other applications that may be filed will result in issued patents, or that any issued patents will survive challenges to their validity. Although the Company believes that its patents have value, there can be no assurance that the Company's patents, or any additional patents that may be issued in the future, will provide meaningful protection from competition. The Company believes its success will depend primarily upon the technical expertise, experience, creativity and the sales and marketing abilities of its personnel.

Patent and other proprietary rights infringement claims are common in the semiconductor industry. 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 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.

LICENSES AND AGREEMENTS

SEIKO EPSON/S MOS

S MOS, an affiliated U.S. distributor of Seiko Epson, has agreed to provide manufactured wafers to the Company in quantities based on six-month rolling forecasts provided by the Company. The Company has committed to buy certain minimum quantities of wafers per month. The Company's products are manufactured in Japan at Seiko Epson's wafer fabrication facilities and delivered to the

Company by S MOS. Prices for the wafers obtained from S MOS are reviewed and adjusted periodically and may be adjusted to reflect prevailing currency exchange rates. See "Factors Affecting Future Results." Daniel S. Hauer, a member of the Company's Board of Directors, is Chairman of the Board of Directors of S MOS.

In July 1994, the Company entered into an advance production payment agreement with Seiko Epson and S MOS, under which it advanced to Seiko Epson \$42 million during fiscal 1995 to be used by Seiko Epson to finance additional sub-micron semiconductor wafer manufacturing capacity. Under the terms of the agreement, the advances are to be repaid in the form of advanced technology sub-micron semiconductor wafers. Subject to certain conditions set forth in the agreement, Seiko Epson has agreed to supply, and the Company has agreed to receive, such wafers at a price (in Japanese yen) and volume expected to achieve full repayment of the advance over a three- to four-year period. In conjunction with the advance production payment agreement, the Company also paid \$2 million during fiscal 1995 for the development of sub-micron process technology and the fabrication of engineering wafers to be delivered over the same period. The agreement calls for wafers to be supplied by Seiko Epson through S MOS pursuant to a purchase agreement concluded with S MOS.

UMC

The Company entered into a series of agreements with UMC in September 1995 pursuant to which the Company agreed to join UMC and several other companies to form a separate Taiwanese company, UICC, for the purpose of building and operating an advanced semiconductor manufacturing facility in Taiwan, Republic of China. Under the terms of the agreement, the Company will invest approximately \$60 million, payable in three installments over two and a half years, for a 10% equity interest in UICC and the right to receive a percentage of the facility's wafer production at market prices. The timing of the payments is related to certain milestones in the development of the advanced semiconductor manufacturing facility. The first payment, in the amount of approximately \$13.7 million, was paid in January 1996, the second payment, in the amount of approximately \$27.2 million, is anticipated to be required during the three months ending February 1997, and the final payment is anticipated to be required within the six months ending December 1997. The proposed facility is expected to commence production of eight-inch sub-micron wafers during the second half of 1997.

In a related agreement, UMC committed to supply the Company with sub-micron wafers beginning in the first calendar quarter of 1996 and continuing with phased increases for several years, until such capacity is available from the new facility. The Company received the first of such wafers during fiscal 1996. Wafer prices and other purchase terms related to this commitment will be subject to periodic adjustment.

AMD

In November 1987, as part of the settlement of a patent infringement suit against the Company, the Company and Monolithic Memories Inc. ("MMI", subsequently merged with AMD) entered into an agreement cross-licensing each other's patents covering programmable and reprogrammable logic devices based on patent applications having a first filing date prior to November 1989. The agreement was subsequently amended in May 1989 by the Company and AMD, the successor to the rights and obligations of MMI in the original agreement. The amendment covers those patents relating to PLD products which are based on patent applications originally filed by the Company, MMI and AMD prior to December 31, 1991. The license terminates, with respect to certain patents asserted by AMD, to cover the Company's current principal products if the Company is acquired by a semiconductor manufacturer with sales in excess of a stated amount or by certain types of companies headquartered in designated Asian countries. No license has been granted to either party for any copyright work, trademark or process technology and, therefore, AMD has not been licensed to use the GAL trademark on its products.

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 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 UMC and 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 high-density 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 has recently experienced significant price fluctuations. These fluctuations often have been 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. Substantially all of its silicon wafers are currently manufactured by Seiko Epson in Japan and sold to the Company, through Seiko Epson's affiliated U.S. distributor, S MOS Systems Inc. In connection with a series of agreements entered into in September 1995 with UMC providing for the formation of a separate Taiwanese company, UICC, for the purpose of building and operating an advanced semiconductor manufacturing facility in Taiwan, Republic of China, UMC committed to supply the Company with sub-micron wafers at existing market prices and terms beginning in the first calendar quarter of 1996 and continuing with phased increases for several years. The Company received the first of such wafers during the first calendar quarter of 1996. A significant interruption in supply from Seiko Epson through S MOS, or interruptions in supply from UMC, would 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. Through fiscal 1996, the Company was successful in obtaining adequate wafer capacity commitments; however, it did experience delays in obtaining wafers. Although current commitments are anticipated to be adequate through fiscal 1997, 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 and S MOS 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. In addition, as noted

above, in September 1995 the Company obtained a commitment from UMC to supply the Company with sub-micron wafers beginning in the first calendar quarter of 1996 and continuing with phased increases for several years. The availability of wafers from UMC will depend on, among other things, UMC successfully achieving volume production of the Company's proprietary E(2)CMOS submicron technology. There can be no assurance that UMC will successfully achieve volume production of Company wafers or 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. During the first half of calendar 1995, the dollar lost substantial value with respect to the yen. This exchange rate decline was regained in the second half of calendar 1995, and the dollar generally continued to gain strength against the yen in the first calendar quarter of 1996. There is no assurance that the value of the dollar with respect to the yen will not again experience substantial deterioration or that any such deterioration will not continue in the future. 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 process technology. Successful implementation of the Company's proprietary E(2)CMOS process technology, UltraMOS, requires a high degree of coordination between the Company and its wafer supplier. Therefore, significant lead time is required to reach volume production at a new wafer supply location such as UMC or UICC. Accordingly, there can be no assurance that volume production at UMC or UICC will be achieved in the near term or at all. 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 located in the Philippines, South Korea and Malaysia, Hong Kong and the United States. Although the Company has not yet experienced significant problems or interruptions in supply from its assembly contractors, any prolonged work stoppages or other failure of these contractors to supply finished products could have a material adverse effect on the Company's operating results.

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 high-density product families, depends on a variety of factors, including product selection, timely and efficient completion of product design, timely and efficient implementation of manufacturing and assembly processes, product performance, quality and reliability in the field and effective sales and marketing. Because new product development commitments must be made well in advance of sales, new product decisions must anticipate both future demand and the technology that will be available to supply that demand. New and enhanced products are continually being introduced into the Company's markets by others, and these products can be expected to affect the competitive environment in the markets in which they are introduced. There is no assurance that the Company will be successful in enhancing its existing products or in selecting, developing, manufacturing, marketing and selling new products.

Most of the Company's revenue and gross margin over the past three fiscal years was due to sales of low-density GAL products, many of which are second sourced by other suppliers. Future revenue growth will be largely dependent on market acceptance of the Company's new and proprietary products, including its high-density product families, and market acceptance of the Company's proprietary software development tools. There can be no assurance that the Company's product and process development efforts will be successful or that new products, including the Company's high-density 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 consider various 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. Such arrangements are becoming common within the industry as independent wafer manufacturers increasingly seek to require their customers to share a portion of the cost of capital intensive wafer fabrication facilities. The Company entered into an advanced production payment arrangement with Seiko Epson in 1994 pursuant to which it advanced a total of \$42 million to Seiko Epson. In September 1995, the Company entered into an agreement with UMC to invest approximately \$60 million for a 10% equity interest in a separate Taiwanese company (UICC) providing for the formation of a joint venture with UMC and several other companies for the purpose of building and operating an advanced semiconductor manufacturing facility. To the extent the Company pursues any other such transactions with Seiko Epson, UMC or any other wafer manufacturers, such transactions could entail even greater levels of investment requiring the Company to seek additional equity or debt financing to fund such activities. 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 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 43%, 47% and 48% of the Company's revenues for fiscal 1994, 1995 and 1996, 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 of 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, Hong Kong, the United States and Malaysia. 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.

EMPLOYEES

As of March 30, 1996, the Company had 500 full-time employees. The Company believes that its future success will depend, in part, on its ability to continue to attract and retain highly skilled technical, marketing and management personnel.

None of the Company's employees is subject to a collective bargaining agreement. The Company has never experienced a work stoppage and considers its employee relations good.

ITEM 2. PROPERTIES

The Company's corporate offices, testing and principal research and design facilities are located in two adjacent buildings owned by the Company in Hillsboro, Oregon comprising a total of 90,000 square feet. The Company's executive, administrative, marketing and production activities are also located at these facilities. The Company leases a 41,000 square foot research and design facility in Milpitas, California under a five-year term which expires in August 1998.

The Company leases space in various locations in the United States for its domestic sales offices, and also leases space in Hong Kong, London, Munich, Paris, Seoul, Taipei and Tokyo for its international sales offices. The Company owns a 13,000 square foot research and development facility and approximately 6,000 square feet of dormitory facilities in Shanghai.

ITEM 3. LEGAL PROCEEDINGS.

There are no material pending legal proceedings to which the Company is a party or to which any of its property is subject.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

Not applicable.

ITEM 4(A). EXECUTIVE OFFICERS OF THE REGISTRANT.

As of June 28, 1996, the executive officers of the Company are as set forth below.

NAME	AGE	POSITION
Cyrus Y. Tsui	50	President, Chief Executive Officer and Chairman of the Board
Albert L. Chan	46	Vice President, California Product Development
Stephen M. Donovan	45	Vice President, International Sales
Paul T. Kollar	50	Vice President, Sales
Steven A. Laub	37	Vice President and General Manager
Rodney F. Sloss	52	Vice President, Finance and Secretary
Jonathan K. Yu	55	Vice President, Operations
Kenneth K. Yu	48	Vice President and Managing Director, Lattice Asia

Executive officers of the Company are appointed by the Board of Directors to serve at the discretion of the Board and hold office until the officers' successors are appointed.

Cyrus Y. Tsui joined the Company in September 1988 as President, Chief Executive Officer and Director, and in March 1991 was named Chairman of the Board. From 1987 until he joined the Company, Mr. Tsui was Corporate Vice President and General Manager of the Programmable Logic Division of AMD. He was Vice President and General Manager of MMI's Commercial Products Division from 1983 until the merger with AMD in 1987.

Albert L. Chan joined the Company in May 1989 as California Design Center Manager and has served since 1991 as Director, California Product Development Center. He was elected Vice President, California Product Development in August 1993. From 1988 until he joined the Company, Mr. Chan was Product Line Manager of the Programmable Gate Array Division of AMD. From 1983 to 1988 he held various engineering management positions at MMI and AMD.

Stephen M. Donovan joined the Company in October 1989 and has served as Director of Marketing and Director of International Sales. He was elected Vice President, International Sales in August 1993. Prior to joining the Company, Mr. Donovan served in several capacities at MMI and AMD, including Sales Director of the Major Accounts Group from 1988 to 1989, and General Manager, MMI Japan from 1986 to 1988.

Paul T. Kollar joined the Company in November 1985 and since that time has served as Vice President, Sales and Vice President, Sales and Marketing.

Steven A. Laub joined the Company in June 1990 as Vice President and General Manager. From September 1983 to June 1990, Mr. Laub was with Bain & Company, Inc., an international management consulting firm, most recently serving as a Vice President and senior member of the technology group.

Rodney F. Sloss joined the Company in May 1994 as Vice President, Finance and Corporate Secretary. From 1992 until he joined the Company, Mr. Sloss served as Chief Financial Officer of Alexander Haagen Company, a southern California based shopping center developer. He was a financial consultant with Sigoloff & Associates from 1990 to 1992, and from 1987 to 1990 Mr. Sloss served as Senior Vice President and Chief Financial Officer of Daisy Systems Corporation, a manufacturer of electronic design automation equipment.

Jonathan K. Yu joined the Company in February 1992 as Vice President, Operations. From 1987 until he joined the Company, Mr. Yu was President and Chief Executive Officer of Silicon Connections Corporation, a manufacturer of high speed BiCMOS logic and memory products. He served as President and Chief Operating Officer of Applied Micro Circuits Corporation, a manufacturer of high speed ASICs, from 1984 to 1987.

Kenneth K. Yu joined the Company in January 1991 as Director of Process Technology. He has served as Managing Director, Lattice Asia since November 1992 and was elected Vice President, Lattice Asia in August 1993. From 1987 to 1990 Mr. Yu was Vice President of Northwest Technology Group, a management and technology consulting firm. From 1984 to 1987 he served as Vice President of Development for Ateq Corporation, a manufacturer of high-speed laser lithography tools.

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON STOCK AND RELATED STOCKHOLDER MATTERS.

The Company's common stock is traded on the over-the-counter market and prices are quoted on the Nasdaq National Market under the symbol "LSCC". The following table sets forth the high and low sale prices for the common stock for the last two fiscal years and for the period since April 1, 1995. On June 20, 1996, the last reported sale price of the common stock was \$22.75. All share prices have

been adjusted for the three-for-two stock split effected in the form of a stock dividend which was paid on July 6, 1993. As of June 13, 1996, the Company had approximately 327 beneficial owners of its common stock.

	HIGH	LOW
	-----	-----
Fiscal 1995:		
First Quarter.....	\$ 19 5/8	\$ 14 3/4
Second Quarter.....	20 1/8	16 1/4
Third Quarter.....	19 3/8	15 1/2
Fourth Quarter.....	27 1/8	16 3/8
Fiscal 1996:		
First Quarter.....	\$ 37 1/8	\$ 23
Second Quarter.....	43	28 7/8
Third Quarter.....	42 1/8	27 5/8
Fourth Quarter.....	37 3/8	26 3/8
Fiscal 1997:		
First Quarter (through June 20, 1996).....	\$ 36 1/4	\$ 21 5/8

The payment of dividends on the common stock is within the discretion of the Company's Board of Directors. The Company intends to retain earnings to finance the growth of its business. The Company has not paid cash dividends on its common stock and the Board of Directors does not expect to declare cash dividends on the common stock in the near future.

ITEM 6. SELECTED FINANCIAL DATA.

The information required by this Item is set forth in the Company's 1996 Annual Report to Stockholders at page 17 under the caption "Selected Financial Data", which information is incorporated herein by reference.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

The information required by this Item is set forth in the Company's 1996 Annual Report to Stockholders at pages 14 through 16 under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations", which information is incorporated herein by reference.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

FINANCIAL STATEMENTS

The information required by this Item is set forth in the Company's 1996 Annual Report to Stockholders, at pages 18 through 27, which information is incorporated herein by reference.

PAGE

FINANCIAL STATEMENT SCHEDULES

Report of Independent Accountants on Financial Statement Schedules.....	S-1
Schedule VIII -- Valuation and qualifying accounts.....	S-2

No other schedules are included because the required information is inapplicable, not required or is presented in the financial statements or related notes thereto.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

Not applicable.

With the exception of the information expressly incorporated by reference from the Annual Report to Stockholders into Parts II and IV of this Form 10-K, the Company's Annual Report to Stockholders is not to be deemed filed as part of this Report.

PART III

Certain information required by Part III is omitted from this Report in that the Company will file its definitive proxy statement for the Annual Meeting of Stockholders to be held on August 12, 1996, pursuant to Regulation 14A of the Securities Exchange Act of 1934 (the "Proxy Statement"), not later than 120 days after the end of the fiscal year covered by this Report, and certain information included in the Proxy Statement is incorporated herein by reference.

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT.

The information required by this item with respect to directors of the Company is included under "Proposal 1: Election of Directors" in the Company's Proxy Statement and is incorporated herein by reference. Information with respect to executive officers of the Company is included under Item 4(a) of Part I of this Report and is incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION.

The information required by this item with respect to executive compensation is included under "Proposal 1: Election of Directors," "Executive Compensation" and "Comparison of Total Cumulative Stockholder Return" in the Company's Proxy Statement and is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT.

The information required by this Item is incorporated herein by reference to the Company's Proxy Statement under the caption "Security Ownership of Certain Beneficial Owners and Management".

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

The information required by this Item is included under "Proposal 1: Election of Directors -- Transactions with Management" in the Company's Proxy Statement and is incorporated herein by reference.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K.

(a)(1) and (2) FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULES.

The information required by this item is included under Item 8 of this Report.

(a)(3) EXHIBITS.

- 3.1 Certificate of Incorporation, as amended (Incorporated by reference to Exhibit 3.1 filed with the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 1990).
- 3.2 Bylaws, as amended (Incorporated by reference to Exhibit 3.2 filed with the Company's Annual Report on Form 10-K for the fiscal year ended March 30, 1991).
- 4.1 Preferred Shares Rights Agreement dated as of September 11, 1991 between Lattice Semiconductor Corporation and First Interstate Bank of Oregon, N.A., as Rights Agent (Incorporated by reference to Exhibit 1 filed with the Company's Registration Statement on Form 8-A on September 13, 1991).
- 10.2 Licensing, Co-development and Manufacturing Agreement between National Semiconductor Corporation and Lattice Semiconductor Corporation dated April 15, 1987 (Incorporated by reference to Exhibit 10.2, File No. 33-31231). (1)
- 10.3 Patent License Agreement dated November 10, 1989 between Monolithic Memories, Inc. and Lattice Semiconductor Corporation, as amended (Incorporated by reference to Exhibit 10.3, File No. 33-31231). (1)
- 10.4 Production and Non-exclusive License Agreement dated January 19, 1987 between Lattice Semiconductor Corporation and SGS Semiconductor Corporation (Incorporated by reference to Exhibit 10.4, File No. 33-31231). (1)
- 10.5 Manufacturing Agreement dated February 18, 1988 between Lattice Semiconductor Corporation and S-MOS Systems, Inc. (Incorporated by reference to Exhibit 10.5, File No. 33-35427). (1)
- 10.6 Extension effective December 31, 1990 to Manufacturing Agreement dated February 18, 1988 between Lattice Semiconductor Corporation and S-MOS Systems, Inc. (Incorporated by reference to Exhibit 10.6 filed with the Company's Annual Report on Form 10-K for the fiscal year ended March 30, 1991).
- 10.7 Form of Distributor Agreement (Incorporated by reference to Exhibit 10.6, File No. 33-31231).
- 10.8 Form of Representative Agreement (Incorporated by reference to Exhibit 10.7, File No. 33-31231).
- 10.9 * Lattice Semiconductor Corporation 1988 Stock Incentive Plan, as amended (Incorporated by reference to Exhibit 10.9 filed with the Company's Annual Report on Form 10-K for the fiscal year ended March 28, 1992).
- 10.10 * Form of Stock Option Agreement (Incorporated by reference to Exhibit 10.9, File No. 33-31231).
- 10.11 * Employment Letter dated September 2, 1988 from Lattice Semiconductor Corporation to Cyrus Y. Tsui (Incorporated by reference to Exhibit 10.10, File No. 33-31231).
- 10.12 Form of Proprietary Rights Agreement (Incorporated by reference Exhibit 10.11, File No. 33-31231).
- 10.13 * Outside Directors Compensation Plan (Incorporated by reference to Exhibit 10.12, File No. 33-31231).
- 10.14 * Amended Outside Directors Stock Option Plan (Incorporated by reference to Exhibit 10.13, File No. 33-35427).

- 10.15 * 1993 Outside Directors Stock Option Plan (Incorporated by reference to Exhibit 10.15 filed with the Company's Annual Report on Form 10-K for the fiscal year ended April 3, 1993).
- 10.16 * Employee Stock Purchase Plan, as amended (Incorporated by reference to Exhibit 10.16 filed with the Company's Annual Report on Form 10-K for the fiscal year ended April 3, 1993).
- 10.17 Advance Production Payment Agreement dated July 5, 1994 among Lattice Semiconductor Corporation and Seiko Epson Corporation and S-MOS Systems, Inc. (Incorporated by reference to Exhibit 10.17 filed with the Company's Annual Report on Form 10-K for the fiscal year ended April 1, 1995). (1)
- 10.18 Engineering Payment Agreement dated July 5, 1994 among Lattice Semiconductor Corporation and Seiko Epson Corporation and S-MOS Systems, Inc. (Incorporated by reference to Exhibit 10.18 filed with the Company's Annual Report on Form 10-K for the fiscal year ended April 1, 1995). (1)
- 10.19 Bridge Capacity Letter dated September 12, 1995 between Lattice Semiconductor Corporation and United Microelectronics Corporation. (Incorporated by reference to Exhibit 10.1 filed with the Company's Current Report on Form 8-K dated September 28, 1995) (1).
- 10.20 Foundry Venture Side Letter dated September 13, 1995 among Lattice Semiconductor Corporation, United Microelectronics Corporation and FabVen (Incorporated by reference to Exhibit 10.2 filed with the Company's Current Report on Form 8-K dated September 28, 1995) (1).
- 10.21 FabVen Foundry Capacity Agreement dated as of August , 1995 among FabVen, United Microelectronics Corporation and Lattice Semiconductor Corporation (Incorporated by reference to Exhibit 10.3 filed with the Company's Current Report on Form 8-K dated September 28, 1995) (1).
- 10.22 Foundry Venture Agreement dated as of August , 1995, between Lattice Semiconductor Corporation and United Microelectronics Corporation (Incorporated by reference to Exhibit 10.4 filed with the Company's Current Report on Form 8-K dated September 28, 1995) (1).
- 11.1 Computation of Net Income Per Share.
- 13.1 1996 Annual Report to Stockholders.
- 21.1 Subsidiaries of the Registrant.
- 23.1 Consent of Independent Accountants.
- 24.1 Power of Attorney (see page 20).
- 27 Financial Data Schedule for Twelve Months Ended March 30, 1996.

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

* Management contract or compensatory plan or arrangement required to be filed as an Exhibit to this Annual Report on Form 10-K pursuant to Item 14(c) thereof.

(b) No reports on Form 8-K were filed during the last quarter of fiscal 1996.

(c) See (a)(3) above.

(d) See (a)(1) and (2) above.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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, in the City of Hillsboro, State of Oregon, on the 21st of June, 1996.

LATTICE SEMICONDUCTOR CORPORATION

By: /s/ RODNEY F. SLOSS

Rodney F. Sloss, VICE PRESIDENT,
FINANCE

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Cyrus Y. Tsui and Rodney F. Sloss, jointly and severally, his attorneys-in-fact, each with the power of substitution, for him in any and all capacities, to sign any amendments to this Report on Form 10-K, and to file the same, with exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, hereby ratifying and confirming all that each of said attorneys-in-fact, or his substitute or substitutes, may do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on the 21st day of June, 1996 on behalf of the Registrant and in the capacities indicated:

SIGNATURE	TITLE
----- /s/ CYRUS Y. TSUI ----- Cyrus Y. Tsui	President, Chief Executive Officer and Chairman of the Board (Principal Executive Officer)
----- /s/ RODNEY F. SLOSS ----- Rodney F. Sloss	Vice President Finance (Principal Financial and Accounting Officer)
----- /s/ DANIEL S. HAUER ----- Daniel S. Hauer	Director
----- /s/ HARRY A. MERLO ----- Harry A. Merlo	Director
----- /s/ LARRY W. SONSINI ----- Larry W. Sonsini	Director
----- /s/ DOUGLAS C. STRAIN ----- Douglas C. Strain	Director

REPORT OF INDEPENDENT ACCOUNTANTS
ON FINANCIAL STATEMENT SCHEDULES

To the Board of Directors
of Lattice Semiconductor Corporation

Our audits of the consolidated financial statements referred to in our report dated April 17, 1996 appearing on page 27 of the 1996 Annual Report to Stockholders of Lattice Semiconductor Corporation (which report and consolidated financial statements are incorporated by reference in this Annual Report on Form 10-K) also included an audit of the Financial Statement Schedule listed in Item 14(a) of this Form 10-K. In our opinion, this Financial Statement Schedule presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements.

/s/ Price Waterhouse LLP

PRICE WATERHOUSE LLP

Portland, Oregon
April 17, 1996

SCHEDULE VIII

LATTICE SEMICONDUCTOR CORPORATION
VALUATION AND QUALIFYING ACCOUNTS
(IN THOUSANDS)

COLUMN A CLASSIFICATION	COLUMN B	COLUMN C	COLUMN D	COLUMN E	COLUMN F
	BALANCE AT BEGINNING OF PERIOD	CHARGED TO COSTS AND EXPENSES	CHARGED TO OTHER ACCOUNTS (DESCRIBE)	WRITE-OFFS NET OF RECOVERIES	BALANCE AT END OF PERIOD
Year ended April 2, 1994:					
Allowance for deferred tax asset.....	\$ --	\$ 2,420	\$ --	\$ --	\$ 2,420
Allowance for doubtful accounts.....	623	--	--	74	697
	\$ 623	\$ 2,420	\$ --	\$ 74	\$ 3,117
Year ended April 1, 1995:					
Allowance for deferred tax asset.....	\$ 2,240	\$ 399	\$ --	\$ --	\$ 2,819
Allowance for doubtful accounts.....	697	75	--	(29)	743
	\$ 3,117	\$ 474	\$ --	\$ (29)	\$ 3,562
Year ended March 30, 1996:					
Allowance for deferred tax asset.....	\$ 2,819	\$ (483)	\$ --	\$ --	\$ 2,336
Allowance for doubtful accounts.....	743	70	--	(13)	800
	\$ 3,562	\$ (413)	\$ --	\$ (13)	\$ 3,136

LATTICE SEMICONDUCTOR CORPORATION
 COMPUTATION OF NET INCOME PER SHARE
 (In thousands, except per share data)

	Year Ended		
	March 30, 1996	April 1, 1995	April 2, 1994
Net income	\$41,784	\$26,966	\$22,490
Weighted average common stock and common stock equivalents:			
Common	20,327	18,627	18,182
Options and warrants . . .	652	537	764
	20,979	19,164	18,946
Net income per share	\$ 1.99	\$ 1.41	\$ 1.19

FINANCIAL HIGHLIGHTS

(IN THOUSANDS, EXCEPT PER SHARE DATA)	YEAR ENDED		
	MARCH 30, 1996	APRIL 1, 1995	APRIL 2, 1994
Revenue	\$ 198,167	\$ 144,083	\$ 126,241
Net income	\$ 41,784	\$ 26,966	\$ 22,490
Net income per share	\$ 1.99	\$ 1.41	\$ 1.19
Cash and short-term investments	\$ 215,170	\$ 88,810	\$ 93,602
Total assets	\$ 342,935	\$ 192,917	\$ 146,093
Stockholders' equity	\$ 298,768	\$ 157,797	\$ 125,068

CORPORATE PROFILE

Lattice Semiconductor Corporation designs, develops and markets high performance programmable logic devices ("PLDs") and related development system software. Lattice is the inventor and world's leading supplier of in-system programmable ("ISP-TM-") PLDs. ISP has emerged as a standard in the high-density PLD market. PLDs are standard semiconductor components that can be configured by the end customer as specific logic functions. PLDs enable the end customer to shorten design cycle times and reduce development costs. Lattice's end customers are primarily original equipment manufacturers ("OEMs") in the fields of communications, computing, computer peripherals, instrumentation, industrial controls and military systems. Nearly one-half of Lattice's revenue is derived from international sales, mainly in Europe and Asia. Lattice offers products that range in complexity from about 200 to 25,000 gates. Products are offered in 20 to 304 pin packages in a variety of speed, power and temperature grades.

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.

Lattice Semiconductor Corporation (the "Company"), founded in 1983 and based in Hillsboro, Oregon, designs, develops and markets high performance programmable logic devices ("PLDs") and related development system software. The Company is the inventor and world's leading supplier of in-system programmable ("ISP-TM-") logic devices. PLDs are standard semiconductor components that can be configured by the end customer as specific logic circuits, enabling the end customer to shorten design cycle times and reduce development costs. The Company's end customers are primarily original equipment manufacturers ("OEMs") in the fields of communications, computing, computer peripherals, instrumentation, industrial controls and military systems. Nearly one-half of the Company's revenue is derived from international sales, mainly in Europe and Asia.

RESULTS OF OPERATIONS

The following table sets forth, for the periods indicated, the percentage of revenue represented by selected items reflected in the Company's consolidated statement of operations.

	YEAR ENDED		
	MAR. 30, 1996	APR. 1, 1995	APR. 2, 1994
Revenue	100%	100%	100%
Costs and expenses:			
Cost of products sold	41	41	42
Research and development	14	16	16
Selling, general and administrative	16	17	18
	-----	-----	-----
	71	74	76
	-----	-----	-----
Income from operations	29	26	24
Interest and other income (net)	3	2	2
	-----	-----	-----
Income before provision for income taxes	32	28	26
Provision for income taxes	11	9	8
	-----	-----	-----
Net income	21%	19%	18%
	-----	-----	-----

REVENUE Revenue was \$198.2 million in fiscal 1996, an increase of 38% over fiscal 1995. The fiscal 1995 revenue of \$144.1 million represented an increase of 14% from the \$126.2 million recorded in fiscal 1994. Most of the Company's revenue for the years presented was derived from sales of GAL-Registered Trademark- (Generic Array Logic) products, which address the low-density 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 in the high-density segment of the PLD market. Increases in the sales of the Company's high-density products have been significant and have grown consistently as a percentage of the Company's overall revenue for the fiscal periods presented. For fiscal 1996, revenue from the sale of high-density products amounted to approximately one-third of the Company's overall revenue.

Revenue from international sales was approximately 48%, 47% and 43% of total revenue for fiscal 1996, 1995 and 1994, respectively. The Company expects export sales to continue to represent a significant portion of revenue. See "Factors Affecting Future Results."

Overall average selling prices, while remaining relatively constant during the fiscal 1994 and 1995 periods, increased slightly during fiscal 1996. This was due primarily to a higher proportion of high-density products included in the revenue mix. 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% in fiscal 1996 and fiscal 1995 and 58% in fiscal 1994. The increase in gross margin in fiscal 1996 and 1995 over fiscal 1994 was primarily due to improved capacity utilization and other reductions in the Company's manufacturing costs offsetting higher period costs associated with increased production of high-density products. Profit margins on older products tend to decrease over time as selling prices decline, but the Company's strategy has been to offset these decreases by continuously introducing new products with higher margins.

RESEARCH AND DEVELOPMENT Research and development expense was \$26.8 million, \$22.9 million and \$20.6 million in fiscal 1996, 1995 and 1994, respectively. The spending increases were related primarily to the development of new technologies and new products, including the Company's high-density product families and their 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 Selling, general and administrative expense increased to \$31.3 million in fiscal 1996 from \$25.0 million in fiscal 1995, which was an increase from \$22.3 million in fiscal 1994. The increase each year was primarily due to expansion of the Company's sales force, the addition of field applications engineers to provide enhanced customer assistance, and higher sales commissions associated with the higher revenue levels. Selling, general and administrative as a percentage of revenue decreased slightly in fiscal 1996 to 16% from 17% in fiscal 1995, and from 18% in fiscal 1994.

INCOME FROM OPERATIONS Income from operations increased 55%, from \$37.3 million to \$57.8 million, from fiscal 1995 to fiscal 1996, and increased 24%, from \$30.0 million, between fiscal 1994 and fiscal 1995. Income from operations increased as a percentage of revenue, from 24% in fiscal 1994 to 26% in fiscal 1995, and then to 29% in fiscal 1996.

INTEREST AND OTHER INCOME Interest and other income (net of expense) increased by approximately \$2.1 million from fiscal 1995 to fiscal 1996, and increased as a percentage of revenue in fiscal 1996 as compared to both fiscal 1995 and 1994. The increase in fiscal 1996 was due to higher cash and investment balances resulting from the Company's follow-on public offering of common stock in November 1995, cash generated from operations and higher interest rates. The increase from fiscal 1994 to fiscal 1995 of \$783,000 was due to higher interest rates in fiscal 1995 as compared to fiscal 1994 offsetting the Company's lower cash balances beginning in the second fiscal 1995 quarter due to the advance payments made to Seiko Epson Corporation. See Note 9 of Notes to Consolidated Financial Statements.

PROVISION FOR INCOME TAXES The Company's effective tax rate was 33.9% for fiscal 1996 as compared to 33.6% and 31.0% recorded in fiscal 1995 and 1994, respectively. The fiscal 1995 increase occurred primarily because both net operating loss and tax credit carryforwards were available in fiscal 1994, while only the remaining tax credit carryforwards were available in fiscal 1995. The fiscal 1996 increase was due to the absence of any available carryforwards in fiscal 1996, although this increase was offset somewhat by lower state taxes.

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.

NET INCOME Net income increased 55%, from \$27.0 million to \$41.8 million, from fiscal 1995 to fiscal 1996, and increased 20%, from \$22.5 million, between fiscal 1994 and fiscal 1995. Net income increased as a percentage of revenue each fiscal year, from 18% in fiscal 1994 to 19% in fiscal 1995, and then to 21% in fiscal 1996.

In May 1993 the Company's Board of Directors approved a three-for-two split of the Company's common stock which was effected in the form of a stock dividend paid on July 6, 1993 to stockholders of record as of June 14, 1993.

FACTORS AFFECTING FUTURE RESULTS

Notwithstanding the objectives, projections, estimates and other forward-looking statements in this Annual Report, the Company's future operating results will continue to be subject to variations based on a wide variety of factors, including, but not limited to, the following: the Company's ability to obtain adequate wafer capacity supply commitments under competitive pricing terms, successful implementation of the Company's proprietary process technology, UltraMOS, -Registered Trademark- at its wafer manufacturers, successful development and implementation of future new advanced process technologies, attainment of acceptable wafer manufacturing yields, achievement of volume production at United Microelectronics Corporation ("UMC") and potential interruptions in supply from the Company's wafer manufacturers and assembly contractors as a result of work stoppages, political instability or natural or man-made disasters.

The Company's operating results also depend in large part on various factors outside the Company's control such as general economic conditions, the cyclical nature of both the semiconductor industry and the markets addressed by the Company's products, sudden price fluctuations, general price erosion, substantial adverse currency exchange movements and changes in effective tax rates. 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 have a material adverse effect on the Company's operating results. The Company's operating results are also dependent upon international revenues which may be adversely affected by the imposition of government controls, export license requirements, trade restrictions, political instability, changes in tariffs and other factors outside the Company's control. 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 market price of the Company's common stock could be subject to significant fluctuations due to the inherent volatility of the semiconductor industry combined with the aforementioned and other factors, including variations in the Company's quarterly operating results and shortfalls in revenues or earnings from levels expected by securities analysts. In addition, the stock market has recently experienced significant price fluctuations, which often have been 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, may adversely affect the market price of the Company's common stock.

In addition, the Company's operating results are subject to variations based upon the following competitive factors: introduction of new products on a timely basis that meet market needs at competitive prices with acceptable margins, market acceptance of the Company's new and proprietary products and proprietary software development tools, variations in product mix, scheduling,

rescheduling and cancellation of large orders, successful protection of the Company's intellectual property rights, potential litigation relating to competitive patents and intellectual property and the Company's ability to attract and retain highly qualified technical and management personnel.

For further explanation of the factors set forth above, see "Factors Affecting Future Results" in Item 1 of the Company's Annual Report on Form 10-K for the fiscal year ended March 30, 1996.

LIQUIDITY AND CAPITAL RESOURCES

As of March 30, 1996, the Company's principal source of liquidity was \$215.2 million of cash and short-term investments, an increase of \$126.4 million from the balance of \$88.8 million at April 1, 1995. This increase was primarily the result of net proceeds of approximately \$86.7 million from the Company's follow-on public offering of 2,500,000 shares of common stock completed in November 1995 and cash generated from operations. The Company also has available an unsecured \$10 million demand bank credit facility with interest due on outstanding balances at a money market rate. This facility has not been used.

Accounts receivable and deferred income on sales to distributors increased 26% and 44%, respectively, as compared to the balances at April 1, 1995. These increases were primarily due to the higher revenue level in the fiscal 1996 fourth quarter and the timing of billings to end customers and distributors. Inventories increased by 54% versus amounts recorded at April 1, 1995 due to increased production in response to higher revenue levels and the timing of silicon wafer receipts. The increase in Investments and other assets includes the \$13.7 million paid in January 1996 as the first in a series of three payments representing the Company's investment in United Integrated Circuit Corporation ("UICC"). See Note 4 of Notes to Consolidated Financial Statements. Wafer supply advance decreased by approximately \$16.8 million, or 54%, as compared to the balance at April 1, 1995 due to the Company's receipt of wafers pursuant to the Advance Production Payment Agreement with Seiko Epson, and a \$6.1 million reclassification to "Prepaid expenses and other current assets" as an increase in management's estimate of wafers to be received under this agreement in the next twelve months. See Note 9 of Notes to Consolidated Financial Statements. Accounts payable and accrued expenses increased 18% as compared to the balance at April 1, 1995 due to the higher level of wafer receipts, increased expense activity associated with the higher revenue levels and timing of payments. Accrued payroll obligations increased 38% as compared to the balance at April 1, 1995 due to higher variable compensation, increased headcount and timing of payments.

Stockholders' equity increased by approximately \$141.0 million, primarily due to the net proceeds of the Company's follow-on public offering of common stock discussed above and net income of approximately \$41.8 million for fiscal 1996.

Capital expenditures were approximately \$12.6 million, \$6.3 million and \$7.2 million for fiscal years 1996, 1995 and 1994, respectively. These expenditures consisted primarily of manufacturing test equipment, lab equipment, engineering workstations, buildings and building improvements. The increase in fiscal 1996 capital expenditures over fiscal 1995 and 1994 was associated with the higher revenue levels noted above and included increased investment in manufacturing test equipment to support the growth in revenue from sales of high-density products.

The Company currently anticipates capital expenditures of approximately \$15 million to \$20 million for the fiscal year ending March 29, 1997. A significant portion of these expenditures is planned for improvements and expansions to the Company's manufacturing capacity and facilities.

Substantially all of the Company's silicon wafer purchases are 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 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 will invest approximately \$60 million, payable in three installments over two and one-half years, for a 10% equity interest in UICC and the right to receive a percentage of the facility's wafer production at market prices. The timing of the payments is related to certain milestones in the development of the advanced semiconductor manufacturing facility. The first payment, in the amount of approximately \$13.7 million, was paid in January 1996. The second payment, in the amount of approximately \$27.2 million, is anticipated to be required during the three month period ending February 1997, and the final payment is anticipated to be required within the six month period ending December 1997. As a result of the future payments, the Company's working capital will be reduced by an aggregate of approximately \$46.3 million over the time period of the remaining payments.

The Company believes that its existing sources of liquidity and funds expected 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 payment to UICC during this time period.

In an effort to secure additional wafer supply, the Company may from time to time consider 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 that the Company pursues any such additional 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.

SELECTED FINANCIAL DATA

(IN THOUSANDS, EXCEPT PER SHARE DATA)	YEAR ENDED				
	MARCH 30, 1996	APRIL 1, 1995	APRIL 2, 1994	APRIL 3, 1993	MARCH 28, 1992
STATEMENT OF OPERATIONS DATA:					
Revenue	\$ 198,167	\$ 144,083	\$ 126,241	\$ 103,391	\$ 71,009
Costs and expenses:					
Cost of products sold	82,216	58,936	53,266	43,650	31,015
Research and development	26,825	22,859	20,636	16,530	12,535
Selling, general and administrative	31,323	25,020	22,299	20,465	14,144
	140,364	106,815	96,201	80,645	57,694
Income from operations	57,803	37,268	30,040	22,746	13,315
Interest and other income, net	5,442	3,349	2,566	2,470	2,420
Income before provision for income taxes	63,245	40,617	32,606	25,216	15,735
Provision for income taxes	21,461	13,651	10,116	7,817	4,880
Net income	\$ 41,784	\$ 26,966	\$ 22,490	\$ 17,399	\$ 10,855
Net income per share	\$ 1.99	\$ 1.41	\$ 1.19	\$ 0.94	\$ 0.61
Weighted average common and common equivalent shares outstanding	20,979	19,164	18,946	18,458	17,834
BALANCE SHEET DATA:					
Working capital	\$ 244,649	\$ 106,021	\$ 105,007	\$ 79,878	\$ 64,297
Total assets	342,935	192,917	146,093	128,876	91,653
Long-term lease obligations, excluding current portion	--	--	--	--	205
Stockholders' equity	298,768	157,797	125,068	98,481	75,643

	YEAR ENDED MARCH 30, 1996				YEAR ENDED APRIL 1, 1995			
	FOURTH QUARTER	THIRD QUARTER	SECOND QUARTER	FIRST QUARTER	FOURTH QUARTER	THIRD QUARTER	SECOND QUARTER	FIRST QUARTER
UNAUDITED QUARTERLY DATA:								
Revenue	\$ 53,008	\$ 51,538	\$ 48,608	\$ 45,013	\$ 40,318	\$ 36,288	\$ 34,564	\$ 32,913
Gross profit	\$ 31,094	\$ 30,195	\$ 28,418	\$ 26,244	\$ 23,608	\$ 21,478	\$ 20,566	\$ 19,495
Net income	\$ 12,097	\$ 11,063	\$ 9,778	\$ 8,846	\$ 7,698	\$ 6,850	\$ 6,419	\$ 5,999
Net income per share	\$ 0.54	\$ 0.52	\$ 0.49	\$ 0.45	\$ 0.40	\$ 0.36	\$ 0.34	\$ 0.32

ALL SHARE AND PER SHARE AMOUNTS HAVE BEEN ADJUSTED TO REFLECT THE THREE-FOR-TWO STOCK SPLIT EFFECTED IN THE FORM OF A STOCK DIVIDEND WHICH WAS PAID ON JULY 6, 1993.

CONSOLIDATED BALANCE SHEET

(IN THOUSANDS, EXCEPT SHARE AMOUNTS)	MARCH 30, 1996	APRIL 1, 1995
----- ASSETS		
Current assets:		
Cash and cash equivalents	\$ 54,600	\$ 7,697
Short-term investments	160,570	81,113
Accounts receivable, net	22,884	18,147
Inventories (note 2)	21,761	14,131
Prepaid expenses and other current assets (note 9)	19,301	12,751
Deferred income taxes (note 7)	9,700	7,302
	-----	-----
Total current assets	288,816	141,141
Investments and other assets (note 4)	14,141	341
Wafer supply advance (note 9)	14,507	31,320
Property and equipment, less accumulated depreciation (note 3)	25,471	20,115
	-----	-----
	\$ 342,935	\$ 192,917
	-----	-----
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses (note 9)	\$ 15,015	\$ 12,774
Accrued payroll obligations	7,456	5,389
Income taxes payable (note 7)	4,800	5,206
Deferred income	16,896	11,751
	-----	-----
Total current liabilities	44,167	35,120
	-----	-----
Commitments and contingencies (notes 4, 5, 6, 9, 10 and 11)	--	--
Stockholders' equity (note 8):		
Preferred stock, \$.01 par value, 10,000,000 shares authorized; none issued and outstanding	--	--
Common stock, \$.01 par value, 100,000,000 shares authorized; 22,123,069 and 18,889,703 shares issued and outstanding	221	189
Paid-in capital	181,957	82,802
Retained earnings	116,590	74,806
	-----	-----
	298,768	157,797
	-----	-----
	\$ 342,935	\$ 192,917
	-----	-----

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THIS STATEMENT.

CONSOLIDATED STATEMENT OF OPERATIONS

(IN THOUSANDS, EXCEPT PER SHARE DATA)	YEAR ENDED		
	MARCH 30, 1996	APRIL 1, 1995	APRIL 2, 1994
Revenue	\$ 198,167	\$ 144,083	\$ 126,241
Costs and expenses:			
Cost of products sold (note 9)	82,216	58,936	53,266
Research and development	26,825	22,859	20,636
Selling, general and administrative (note 12)	31,323	25,020	22,299
	140,364	106,815	96,201
Income from operations	57,803	37,268	30,040
Other income (expense):			
Interest income	5,570	3,437	2,794
Other expense, net	(128)	(88)	(228)
Income before provision for income taxes	63,245	40,617	32,606
Provision for income taxes (note 7)	21,461	13,651	10,116
Net income	\$ 41,784	\$ 26,966	\$ 22,490
Net income per share	\$ 1.99	\$ 1.41	\$ 1.19
Weighted average number of common and common equivalent shares outstanding	20,979	19,164	18,946

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THIS STATEMENT.

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

(IN THOUSANDS, EXCEPT PAR VALUE)	COMMON STOCK		PAID-IN CAPITAL	RETAINED EARNINGS	TOTAL
	SHARES (\$.01 PAR VALUE)	AMOUNT			
Balances, April 3, 1993	17,925	\$ 179	\$ 72,952	\$ 25,350	\$ 98,481
Common stock issued	486	5	2,061	--	2,066
Tax benefit of option exercises	--	--	2,172	--	2,172
Other	--	--	(141)	--	(141)
Net income for fiscal 1994	--	--	--	22,490	22,490
Balances, April 2, 1994	18,411	184	77,044	47,840	125,068
Common stock issued	479	5	3,659	--	3,664
Tax benefit of option exercises	--	--	2,133	--	2,133
Other	--	--	(34)	--	(34)
Net income for fiscal 1995	--	--	--	26,966	26,966
Balances, April 1, 1995	18,890	189	82,802	74,806	157,797
Net proceeds from public offering	2,500	25	86,676	--	86,701
Other common stock issued	733	7	5,416	--	5,423
Tax benefit of option exercises	--	--	6,961	--	6,961
Other	--	--	102	--	102
Net income for fiscal 1996	--	--	--	41,784	41,784
Balances, March 30, 1996	22,123	\$ 221	\$ 181,957	\$ 116,590	\$ 298,768

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THIS STATEMENT.

CONSOLIDATED STATEMENT OF CASH FLOWS

(IN THOUSANDS)	YEAR ENDED		
	MARCH 30, 1996	APRIL 1, 1995	APRIL 2, 1994
Cash flow from operating activities:			
Net income	\$ 41,784	\$ 26,966	\$ 22,490
Adjustments to reconcile net income to net cash provided (used) by operating activities:			
Depreciation and amortization	7,137	6,007	5,788
Deferred income taxes	(2,398)	(1,781)	(3,325)
Changes in assets and liabilities:			
Accounts receivable	(4,737)	(6,486)	965
Inventories	(7,630)	(284)	(338)
Prepaid expenses and other current assets	(450)	(100)	(367)
Investments and other assets	(13,800)	(103)	(61)
Wafer supply advance, net of wafer receipts	10,713	(42,570)	--
Accounts payable and accrued expenses	2,241	6,516	(10,870)
Accrued payroll obligations	2,067	1,799	424
Income taxes payable	(406)	1,115	1,150
Deferred income	5,145	4,665	70
Net cash provided (used) by operating activities	39,666	(4,256)	15,926
Cash flow from investing activities:			
Purchase of short-term investments, net	(79,457)	(5,874)	(5,086)
Proceeds from sale of fixed assets	98	--	--
Capital expenditures	(12,591)	(6,299)	(7,185)
Net cash used by investing activities	(91,950)	(12,173)	(12,271)
Cash flow from financing activities:			
Net proceeds from issuance of common stock	99,187	5,763	4,097
Payments of capital lease obligations	--	--	(144)
Net cash provided by financing activities	99,187	5,763	3,953
Net increase (decrease) in cash and cash equivalents	46,903	(10,666)	7,608
Beginning cash and cash equivalents	7,697	18,363	10,755
Ending cash and cash equivalents	\$ 54,600	\$ 7,697	\$ 18,363

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THIS STATEMENT.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

NATURE OF OPERATIONS Lattice Semiconductor Corporation (the "Company"), founded in 1983 and based in Hillsboro, Oregon, designs, develops and markets high performance programmable logic devices ("PLDs") and related development system software. The Company is the world's leading supplier of in-system programmable ("ISP-TM-") logic devices. PLDs are standard semiconductor components that can be configured by the end customer as specific logic circuits, enabling the end customer to shorten design cycle times and reduce development costs. The Company's end customers are primarily original equipment manufacturers ("OEMs") in the fields of communications, computing, computer peripherals, instrumentation, industrial controls and military systems. Nearly one-half of the Company's revenue is derived from international sales, mainly in Europe and Asia.

FISCAL REPORTING PERIOD AND PRINCIPLES OF CONSOLIDATION The Company reports on a 52 or 53 week fiscal year, which ends on the Saturday closest to March 31. The accompanying consolidated financial statements include the accounts of Lattice Semiconductor Corporation and its wholly owned foreign subsidiaries, Lattice GmbH, Lattice Semiconducteurs SARL, Lattice Semiconductor KK, Lattice Semiconductor Shanghai Co., Ltd., Lattice Semiconductor Asia Ltd., Lattice Semiconductor International Ltd. and Lattice Semiconductor UK Ltd. The assets, liabilities, and results of operations of these entities were not material for any of the years presented in the consolidated financial statements and all intercompany accounts and transactions have been eliminated.

CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS The Company considers all highly liquid investments, which are readily convertible into cash and have original maturities of three months or less, to be cash equivalents. Short-term investments, which have maturities greater than three months and less than one year, are composed of money market preferred stocks (\$125.1 million), government obligations (\$31.5 million) and time deposits (\$4.0 million) at March 30, 1996.

Prior to fiscal 1995, the Company reported investments at cost which approximated market. Effective beginning in the first quarter of fiscal 1995, the Company adopted Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities" (SFAS No. 115), which creates certain classification categories for such investments based on the nature of the securities and intent of the Company. SFAS No. 115 has been adopted on a prospective basis, and the cumulative effect of the change was not material. Pursuant to adoption, the Company has categorized its investments as held-to-maturity. Securities classified as held-to-maturity are stated at amortized cost with corresponding premiums or discounts amortized over the life of the investment to interest income. Amortized cost approximates market value at March 30, 1996.

FINANCIAL INSTRUMENTS All of the Company's significant financial assets and liabilities are recognized in the Consolidated Balance Sheet as of March 30, 1996 and April 1, 1995. The value reflected in the Consolidated Balance Sheet (carrying value) approximates fair value for the Company's financial assets and liabilities. The Company estimates the fair value of its cash and cash equivalents, short-term investments, accounts receivable, other current assets and current liabilities based upon existing interest rates related to such assets and liabilities compared to the current market rates of interest for instruments of similar nature and degree of risk.

DERIVATIVE FINANCIAL INSTRUMENTS Effective beginning in the first quarter of fiscal 1995, the Company adopted Statement of Financial Accounting Standards No. 119, "Disclosures about Derivative Financial Instruments and Fair Value of Financial Instruments" (SFAS 119). In order to minimize exposure to foreign exchange risk with respect to the Company's investment in UICC as further described in Note 4 to the accompanying Consolidated Financial Statements, the Company entered into a U.S. Dollar-Taiwan Dollar foreign forward exchange contract with a bank in February 1996. This contract, which matures in December 1996, is accounted for as an identifiable hedge against the Company's commitment to make the second in a series of three payments of the investment in UICC. The amount of the foreign forward exchange contract represents the amount of the Company's investment obligation in UICC scheduled for payment during the three months ending February 1997.

Unrealized gain or loss with respect to this transaction was immaterial at March 30, 1996; any gain or loss realized will be reflected in the investment balance as of the payment date.

The Company does not enter into derivative financial instruments for trading purposes.

FOREIGN EXCHANGE Substantially all of the Company's silicon wafer purchases are 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. Gains or losses from foreign exchange rate fluctuations on unhedged balances denominated in foreign currencies are reflected in Other Income. Realized and unrealized gains or losses were not significant for the fiscal periods presented.

CONCENTRATIONS OF CREDIT RISK Financial instruments which potentially expose the Company to concentrations of credit risk consist primarily of short-term investments and trade receivables. The Company places its investments through several financial institutions and mitigates the concentration of credit risk by placing percentage limits on the maximum portion of the investment portfolio which may be invested in any one investment instrument. Investments consist primarily of A1 and P1 or better rated U.S. commercial paper, U.S. government agency obligations and other money market instruments, "AA" or better rated municipal obligations, money market preferred stocks and other time deposits. Concentrations of credit risk with respect to trade receivables are mitigated by a geographically diverse customer base and the Company's credit and collection process. The Company performs credit evaluations for all customers and secures transactions with letters of credit or advance payments where necessary. Write-offs for uncollected trade receivables have not been significant to date.

REVENUE RECOGNITION AND ACCOUNTS RECEIVABLE Revenue from sales to OEM 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 cost relating to such distributor sales are deferred until the product is sold by the distributor and related revenue and costs are then reflected in income. Accounts receivable are shown net of allowance for doubtful accounts of \$800,000 and \$743,000 at March 30, 1996 and April 1, 1995, respectively.

Revenue from one distributor was \$21.1 million for fiscal 1996. Revenue from two distributors was \$17.3 million and \$16.1 million for fiscal 1995 and \$14.7 million and \$12.6 million for fiscal 1994. Export revenue was approximately \$95.1 million, \$68.4 million and \$54.6 million for fiscal 1996, 1995 and 1994, respectively. Sales to Europe were approximately \$37.9 million, \$24.5 million and \$16.1 million, and to Asia \$52.4 million, \$40.6 million and \$34.3 million in fiscal 1996, 1995 and 1994, respectively.

INVENTORIES Inventories are stated at the lower of first-in, first-out cost or market.

PROPERTY AND EQUIPMENT Property and equipment are stated at cost. Depreciation is computed using the straight-line method for financial reporting purposes over the estimated useful lives of the related assets, generally three to five years for equipment and thirty years for buildings. Accelerated methods of computing depreciation are generally used for income tax purposes.

TRANSLATION OF FOREIGN CURRENCIES The Company translates accounts denominated in foreign currencies in accordance with Statement of Financial Accounting Standards (SFAS) No. 52, "Foreign Currency Translation." Translation adjustments related to the consolidation of foreign subsidiary financial statements have not been significant to date.

RESEARCH AND DEVELOPMENT Research and development costs are expensed as incurred.

INCOME TAXES Income taxes are calculated in accordance with SFAS No. 109, "Accounting for Income Taxes," which the Company adopted on a prospective basis in the first quarter of fiscal 1994. The Company had previously adopted SFAS No. 96 during fiscal 1988. Both statements utilize the asset and liability method for computing deferred income taxes. Accordingly, adoption of SFAS No. 109 had no material effect on the Company's provision for income taxes or results of operations for fiscal 1994.

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. All share and per share amounts presented in the accompanying consolidated financial statements and notes thereto have been adjusted to reflect the three-for-two stock split effected in the form of a stock dividend which was paid on July 6, 1993.

STATEMENT OF CASH FLOWS Income taxes paid approximated \$17.3 million, \$11.9 million and \$10.1 million in fiscal 1996, 1995 and 1994, respectively. Interest paid does not differ materially from interest expense, which aggregated approximately \$42,000, \$28,000 and \$23,000 in fiscal 1996, 1995 and 1994, respectively.

USE OF ESTIMATES The preparation of financial statements in conformity with generally accepted accounting principles requires management 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 amounts of revenues and expenses during the fiscal periods presented. Actual results could differ from those estimates.

NOTE 2. INVENTORIES

(IN THOUSANDS)	MARCH 30, 1996	APRIL 1, 1995
Work in progress	\$ 13,174	\$ 9,686
Finished goods	8,587	4,445
	-----	-----
	\$ 21,761	\$ 14,131
	-----	-----

NOTE 3. PROPERTY AND EQUIPMENT

(IN THOUSANDS)	MARCH 30, 1996	APRIL 1, 1995
Land	\$ 1,455	\$ 1,455
Buildings	5,892	5,473
Computer and test equipment	44,333	33,372
Office furniture and equipment	2,712	2,518
Leasehold and building improvements	2,465	2,223
	56,857	45,041
Accumulated depreciation and amortization	(31,386)	(24,926)
	\$ 25,471	\$ 20,115

NOTE 4. INVESTMENTS AND OTHER ASSETS

The Company entered into a series of agreements with United Microelectronics Corporation ("UMC") in September 1995 pursuant to which the Company agreed to join UMC and several other companies to form a separate Taiwanese company, United Integrated Circuits Corporation ("UICC"), for the purpose of building and operating an advanced semiconductor manufacturing facility in Taiwan, Republic of China. Under the terms of the agreements, the Company will invest approximately \$60 million, payable in three installments over two and one-half years, for a 10% equity interest in UICC and the right to receive a percentage of the facility's wafer production at market prices. This investment is accounted for at cost. The timing of the payments is related to certain milestones in the development of the advanced semiconductor manufacturing facility. The first payment, in the amount of approximately \$13.7 million, was paid in January 1996, the second payment, in the amount of approximately \$27.2 million, is anticipated to be required during the three months ending February 1997, and the final payment is anticipated to be required within the six months ending December 1997. The initial payment of approximately \$13.7 million is included in "Investments and other assets" on the accompanying Consolidated Balance Sheet at March 30, 1996.

NOTE 5. CREDIT FACILITIES

The Company 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.

NOTE 6. LEASE OBLIGATIONS

Certain facilities and equipment of the Company are leased under operating leases, which expire at various times through fiscal 1999. Rental expense under the operating leases was approximately \$993,000, \$815,000 and \$672,000 for fiscal 1996, 1995 and 1994, respectively.

Future minimum lease commitments at March 30, 1996 are as follows:

FISCAL YEAR	
(IN THOUSANDS)	
1997	\$ 381
1998	391
1999	165

	\$ 937

NOTE 7. INCOME TAXES

The components of the provision for income taxes for fiscal 1996, 1995 and 1994 are presented in the following table:

(IN THOUSANDS)	YEAR ENDED		
	MARCH 30, 1996	APRIL 1, 1995	APRIL 2, 1994
Current:			
Federal	\$ 21,550	\$ 13,849	\$ 11,761
State	2,309	1,583	1,680
	-----	-----	-----
	23,859	15,432	13,441
Deferred:			
Federal	(2,166)	(1,598)	(2,909)
State	(232)	(183)	(416)
	-----	-----	-----
	(2,398)	(1,781)	(3,325)
	-----	-----	-----
	\$ 21,461	\$ 13,651	\$ 10,116
	-----	-----	-----

Foreign income taxes were not significant for the fiscal years presented.

The provision for income taxes differs from the amount of income tax determined by applying the applicable U.S. statutory federal income tax rate to pretax income as a result of the following differences:

(IN THOUSANDS)	YEAR ENDED		
	MARCH 30, 1996	APRIL 1, 1995	APRIL 2, 1994
Computed income tax expense at the statutory rate	\$ 22,136	\$ 14,216	\$ 11,412
Adjustments for tax effects of:			
State taxes, net	1,636	1,625	1,630
Research and development credits, current	(196)	(193)	(272)
Research and development and investment tax credit carryforwards	--	(243)	(601)
Benefit of operating loss carryforward	--	--	(658)
Nontaxable investment income	(1,506)	(1,020)	(824)
Other	(609)	(734)	(571)
	<u>\$ 21,461</u>	<u>\$ 13,651</u>	<u>\$10,116</u>

The components of the Company's net deferred tax asset under SFAS No. 109 were as follows:

(IN THOUSANDS)	MARCH 30, 1996	APRIL 1, 1995
Deferred income	\$ 6,343	\$ 4,172
Expenses and allowances not currently deductible	5,693	5,949
Total deferred tax assets	12,036	10,121
Valuation allowance	(2,336)	(2,819)
	\$ 9,700	\$ 7,302

The valuation allowances are recorded to offset deferred tax assets which 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.

NOTE 8. STOCKHOLDERS' EQUITY

The Company plans to adopt SFAS No. 123, "Accounting for Stock-Based Compensation" in fiscal 1997. SFAS No. 123 was issued by the Financial Accounting Standards Board in October 1995 and allows companies to choose whether to account for stock-based compensation on a fair value method or to continue to account for stock-based compensation under the current intrinsic value method as prescribed by APB Opinion No. 25, "Accounting for Stock Issued to Employees." The Company plans to continue to follow the provisions of APB Opinion No. 25. Therefore, management of the Company believes that the impact of adoption will not have a significant effect on the Company's financial position or results of operations.

COMMON STOCK In November 1995, the Company completed its third public offering, consisting of 2,500,000 shares of common stock at \$36.63 per share. Net proceeds to the Company were approximately \$86.7 million after deducting underwriting discounts and offering expenses.

STOCK WARRANTS The Company has issued to a vendor warrants to purchase a total of 464,125 shares of common stock. Of this amount, 295,500 warrants were issued and 189,000 exercised prior to fiscal 1994. During fiscal 1995 and 1994, the Company issued an additional 62,125 shares at \$17.38 per share and 106,500 shares at \$20.17 per share, respectively. During fiscal 1996, the vendor exercised warrants for 45,000 shares, at an exercise price of \$20.17 per share. During fiscal 1994, the vendor exercised warrants for 106,500 shares; total shares issued to the vendor were 50,904 after surrender of 55,596 shares to cover exercise costs of approximately \$1.1 million. The remaining 123,625 warrants were cancelled in exchange for the issuance of a warrant to purchase 67,419 shares of common stock at \$34.00 per share which will be earned ratably from March 1996 through February 1997.

STOCK OPTION PLAN As of March 30, 1996, the Company had reserved 5,775,000 shares of common stock for issuance to officers and key employees under a stock option plan. The options, which are generally granted at no less than fair market value at the date of grant, are exercisable immediately and expire five years from date of grant. The transfer of certain shares of common stock acquired through exercise of employee stock options is restricted under stock vesting agreements that grant the Company the right to repurchase unvested shares at the exercise price if employment is terminated. Generally, the Company's repurchase rights lapse quarterly over four years.

The following table summarizes activity under the plan during the past three years:

	SHARES UNDER OPTION	PRICE RANGE
Balance, April 3, 1993	2,263,524	\$.07-\$17.83
Options granted	491,180	\$ 14.88-\$23.75
Options canceled	(203,266)	\$.07-\$23.75
Options exercised	(371,835)	\$.07-\$14.50
Balance, April 2, 1994	2,179,603	\$.27-\$23.75
Options granted	548,400	\$ 16.38-\$23.50
Options canceled	(113,790)	\$.27-\$23.75
Options exercised	(393,726)	\$.27-\$18.88
Balance, April 1, 1995	2,220,487	\$ 3.67-\$23.50
Options granted	806,550	\$ 31.63-\$36.50
Options cancelled	(195,865)	\$ 3.67-\$36.50
Options exercised	(589,469)	\$ 3.67-\$31.63

Balance, March 30, 1996	2,241,703	\$	6.17-\$36.50

Available for grant at March 30, 1996	424,046		

OUTSIDE DIRECTORS' STOCK OPTION PLAN The 1993 Outside Directors Stock Option Plan was approved by the stockholders in August 1993, replacing the 1990 Amended Outside Directors Stock Option Plan. The new plan provides for the issuance of stock options to members of the Company's Board of Directors who are not employees of the Company; 225,000 shares of the Company's Common Stock are reserved for issuance thereunder. In August 1993, each non-employee director was granted under the new plan an option to purchase 18,000 shares of common stock. These options generally become exercisable quarterly over a four year period beginning on the date of grant. As of March 30, 1996 and April 1, 1995, options to purchase 128,625 shares of common stock had been granted to non-employee directors under the former plan. The last grants under the former plan were made in August 1993, and no additional grants under the former plan are anticipated.

The following table summarizes activity under these plans during the past three years:

	SHARES UNDER OPTION	PRICE RANGE
Balance, April 3, 1993	54,000	\$ 0.27-\$17.83
Options granted	100,875	\$ 20.17-\$23.75
Options exercised	(12,375)	\$ 0.27-\$ 9.50
Balance, April 2, 1994	142,500	\$ 3.75-\$23.75
Options cancelled	(13,500)	\$23.75
Options exercised	(9,000)	\$ 3.75-\$20.17
Balance, April 1, 1995	120,000	\$ 9.50-\$23.75
Options exercised	(31,500)	\$ 6.17-\$23.75
Balance, March 30, 1996	88,500	\$ 6.67-\$23.75
Available for grant at March 30, 1996	148,500	

STOCK PURCHASE PLAN The Company's employee stock purchase plan was approved by the stockholders in August 1990, and became effective January 1, 1991. The plan permits eligible employees to purchase shares of common stock through payroll deductions, not to exceed 10% of the employee's compensation. The purchase price of the shares is the lower of 85% of the fair market value of the stock at the beginning of each six-month offering period or 85% of the fair market value at the end of such period, but in no event less than the book value per share at the mid-point of each offering period. Amounts accumulated through payroll deductions during the offering period are used to purchase shares on the last day of the offering period. Of the 450,000 shares authorized to be issued under the plan, 54,239, 70,973 and 45,789 shares were issued during fiscal 1996, 1995 and 1994, respectively, and 115,230 shares were available for issuance at March 30, 1996.

SHAREHOLDER RIGHTS PLAN A shareholder rights plan approved on September 11, 1991 provides for the issuance of one right for each share of outstanding common stock. With certain exceptions, the rights will become exercisable only in the event that an acquiring party accumulates beneficial ownership of 20% or more of the Company's outstanding common stock or announces a tender or exchange offer, the consummation of which would result in ownership by that party of 20% or more of the Company's outstanding common stock. The rights expire on September 11, 2001 if not previously redeemed or exercised. Each right entitles the holder to purchase, for \$60.00, a fraction of a share of the Company's Series A Participating Preferred Stock with economic terms similar to that of one share of the Company's common stock. The Company will generally be entitled to redeem the rights at \$0.01 per right at any time on or prior to the tenth day after an acquiring person has acquired beneficial ownership of 20% or more of the Company's common stock. If, prior to the redemption or expiration of the rights, an acquiring person or group acquires beneficial ownership of 20% or more of the Company's outstanding common stock, each right not beneficially owned by the acquiring person or group will entitle its holder to purchase, at the rights' then current exercise price, that number of shares of common stock having a value equal to two times the exercise price.

NOTE 9. TRANSACTIONS WITH PRINCIPAL SUPPLIERS

Substantially all of the Company's silicon wafers are currently manufactured by Seiko Epson Corporation ("Seiko Epson") in Japan and are sold to the Company through Seiko Epson's affiliated U.S. distributor, S-MOS Systems Inc. ("SMOS"). The Chairman of the Board of SMOS is a member of the Company's Board of Directors. In connection with the series of agreements recently entered into with UMC as described in Note 4 to the Consolidated Financial Statements, UMC committed to supply the Company with sub-micron wafers beginning in the first calendar quarter of 1996 and continuing with phased increases for several years. A significant interruption in supply from Seiko Epson through SMOS, or interruptions in supply from UMC, would have a material adverse effect on the Company's business.

In July 1994, the Company signed an agreement with Seiko Epson under which it advanced \$44 million during fiscal 1995 to be used in conjunction with the construction of additional wafer fabrication capacity and technological development. The advance is being repaid in the form of semiconductor wafers over a multi-year period. No interest income is recorded. Total wafer receipts under this agreement aggregated approximately \$10,713,000 and \$1,430,000 during fiscal 1996 and 1995, respectively. The balance sheet caption "Prepaid expenses and other current assets" includes management's estimate of such wafers to be received under the agreement during fiscal 1997, aggregating \$17,350,000.

The Company continues to purchase a portion of its wafer supply from Seiko Epson for cash using commercial terms. Wafer purchases totalled \$34.7 million, \$27.8 million and \$25.4 million for fiscal 1996, 1995 and 1994, respectively. Accounts payable and accrued expenses at March 30, 1996 and April 1, 1995 include \$4.0 and \$4.1 million, respectively, due this vendor. Open purchase

commitments to this vendor approximated \$15.2 million at March 30, 1996.

NOTE 10. EMPLOYEE BENEFIT PLANS

PROFIT SHARING PLAN The Company initiated a profit sharing plan effective April 1, 1990. Under the provisions of this plan, as approved by the Board of Directors, a percentage of the operating income of the Company, as defined and calculated at the end of the second and fourth quarter of each fiscal year for each respective six-month period, is paid to qualified employees based on years of service. In fiscal 1996, 1995 and 1994, approximately \$2.3 million, \$1.4 million and \$1.2 million, respectively, were charged against operations in connection with the plan.

QUALIFIED INVESTMENT PLAN In 1990, the Company adopted a 401(k) plan, which provides participants with an opportunity to accumulate funds for retirement. Under the terms of the plan, eligible participants may contribute up to 15% of their eligible earnings to the plan Trust. The plan allows for discretionary matching contributions by the Company. No such contributions occurred through fiscal 1996. Beginning in fiscal 1997, the Company will match eligible employee contributions of up to 5% of base pay. Company contributions are discretionary and vest over four years.

NOTE 11. COMMITMENTS AND 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 this 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 not have a material adverse effect to the Company.

NOTE 12. RELATED PARTY

Larry W. Sonsini is a member of the Company's Board of Directors and is presently the Chairman of the Executive Committee of Wilson, Sonsini, Goodrich & Rosati, a law firm that provides corporate legal services to the Company. Legal services billed to the Company aggregated approximately \$177,000, \$46,000 and \$129,000, respectively, for fiscal 1996, 1995 and 1994, respectively. Amounts payable to the law firm were not significant at March 30, 1996 or April 1, 1995.

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Stockholders of
Lattice Semiconductor Corporation

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of operations, of changes in stockholders' equity and of cash flows present fairly, in all material respects, the financial position of Lattice Semiconductor Corporation and its subsidiaries at March 30, 1996 and April 1, 1995, and the results of their operations and their cash flows for each of the three years in the period ended March 30, 1996, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

/s/ Price Waterhouse LLP
Portland, Oregon
April 17, 1996

CORPORATE DIRECTORY

Board of Directors
Cyrus Y. Tsui
Chairman of the Board, President and Chief Executive Officer

Daniel S. Hauer(1)
Chairman of the Board,
S-MOS Systems Inc.

Harry A. Merlo(1),(2)
President,
Merlo Corporation

Douglas C. Strain(2)
Vice Chairman and Founder,
Electro Scientific Industries, Inc.

Larry W. Sonsini
Partner and Chairman of the
Executive Committee,
Wilson, Sonsini, Goodrich & Rosati

OFFICERS

Cyrus Y. Tsui
Chairman of the Board,
President and Chief Executive Officer

Albert L. Chan
Vice President,
California Product Development

Stephen M. Donovan
Vice President, International Sales

Paul T. Kollar
Vice President, Sales

Steven A. Laub
Vice President and General Manager

Rodney F. Sloss
Vice President, Finance and Secretary

Jonathan K. Yu
Vice President, Operations

Kenneth K. Yu
Vice President and Managing Director,
Lattice Asia,
Technology Advisor to the
Office of the President

LEGAL COUNSEL

Wilson, Sonsini, Goodrich & Rosati
650 Page Mill Road
Palo Alto, California 94304-1050
415/493-9300

INDEPENDENT ACCOUNTANTS

Price Waterhouse LLP
121 S.W. Morrison Street, Suite 1800
Portland, Oregon 97204
503/224-9040

CORPORATE OFFICE

Lattice Semiconductor Corporation
5555 N.E. Moore Court
Hillsboro, Oregon 97124-6421
Telephone: 503/681-0118
Facsimile: 503/681-0347

REGISTRAR AND TRANSFER AGENT

First Interstate Bank
Stock Transfer Administration
P.O. Box 21927
Seattle, Washington 98111
206/292-3696

ANNUAL MEETING

The annual meeting of stockholders for Lattice Semiconductor Corporation will be held at the Embassy Suites Hotel, 9000 S.W. Washington Square Road, Tigard, Oregon 97223 on Monday, August 12, 1996, at 1:00 pm.

FORM 10-K

A copy of the Company's Annual Report on Form 10-K, as filed with the Securities and Exchange Commission, will be made available without charge to all stockholders upon written request to the Company.

Financial information on quarterly operating results is available on request by telephoning the Lattice shareholder relations department at (503) 681-0118. Quarterly shareholder report mailings will be discontinued in fiscal 1997.

COMMON STOCK

Lattice Semiconductor Corporation's common stock is traded on the NASDAQ National Market System under the symbol "LSCC."

STOCK PRICE HISTORY

The Company's common stock is traded on the over-the-counter market and prices are quoted on the NASDAQ National Market System under the symbol "LSCC." The following table sets forth the high and low sale prices for the last two fiscal years.

	HIGH	LOW

Fiscal 1995:		
First Quarter	19 5/8	14 3/4
Second Quarter	20 1/8	16 1/4
Third Quarter	19 3/8	15 1/2
Fourth Quarter	27 1/8	16 3/8
Fiscal 1996:		
First Quarter	37 1/8	23
Second Quarter	43	28 7/8
Third Quarter	42 1/8	27 5/8
Fourth Quarter	37 3/8	26 3/8

In May 1993 the Company's Board of Directors approved a three-for-two stock split of its common stock which was effected in the form of a stock dividend. The stock dividend was paid on July 6, 1993 to stockholders of record as of June 14, 1993. The above sale prices have been adjusted to reflect the stock split.

- (1) MEMBER OF THE AUDIT COMMITTEE
- (2) MEMBER OF THE COMPENSATION COMMITTEE

EXHIBIT 21.1

LATTICE SEMICONDUCTOR CORPORATION

SUBSIDIARIES OF THE REGISTRANT

Name	Jurisdiction of Incorporation
----	-----
1. Lattice GmbH	Germany
2. Lattice Semiconducteurs SARL	France
3. Lattice Semiconductor KK	Japan
4. Lattice Semiconductor (Shanghai) Co. Ltd.	China
5. Lattice UK Limited	United Kingdom
6. Lattice Semiconductor International Limited	Jamaica
7. Lattice Semiconductor Asia Limited	Hong Kong

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in the Registration Statement on Form S-8 (No. 33-33933, No. 33-35259, No. 33-38521, No. 33-76358, No. 33-51232 and No. 33-69496) of Lattice Semiconductor Corporation of our report dated April 17, 1996 appearing on page 27 of the Annual Report to Stockholders which is incorporated in this Annual Report on Form 10-K. We also consent to the incorporation by reference of our report on the Financial Statement Schedules which appears on page S-1 of this Form 10-K.

/s/ Price Waterhouse LLP

PRICE WATERHOUSE LLP

Portland, Oregon
June 26, 1996

YEAR

MAR-30-1996		
APR-02-1995		
MAR-30-1996		54,600
	160,570	
	22,884	
	(800)	
	21,761	
	288,816	
		56,857
	(31,386)	
	342,935	
44,167		0
	0	
		0
		221
	298,547	
342,935		
	198,167	
	198,167	
		82,216
	140,364	
	0	
	0	
(5,442)		
	63,245	
	21,461	
41,784		
	0	
	0	
		0
	41,784	
	1.99	
	1.99	