
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 27, 2008

OR

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

FOR THE TRANSITION PERIOD FROM _____ TO _____

Commission file number 000-18032

LATTICE SEMICONDUCTOR CORPORATION

(Exact name of Registrant as specified in its charter)

State of Delaware
(State or other jurisdiction of incorporation or
organization)

5555 N.E. Moore Court, Hillsboro, Oregon
(Address of principal executive offices)

93-0835214
(I.R.S. Employer Identification No.)

97124-6421
(Zip Code)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Number of shares of common stock outstanding as of October 31, 2008 115,442,434

The information contained in this Form 10-Q is as of November 5, 2008. This Form 10-Q should be read in conjunction with our Annual Report on Form 10-K for the year ended December 29, 2007.

LATTICE SEMICONDUCTOR CORPORATION

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Forward-Looking Statements

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Any statements about our expectations, beliefs, plans, objectives, assumptions or future events or performance are not historical facts and may be forward-looking. We use words or phrases such as “anticipates,” “believes,” “estimates,” “expects,” “intends,” “plans,” “projects,” “may,” “will,” “should,” “continue,” “ongoing,” “future,” “potential” and similar words or phrases to identify forward-looking statements.

Forward-looking statements involve estimates, assumptions, risks and uncertainties that could cause actual results to differ materially from those expressed in the forward-looking statements. The key factors that could cause our actual results to differ materially from the forward-looking statements include global economic uncertainty, overall semiconductor market conditions, market acceptance and demand for our new products, our dependencies on our silicon wafer suppliers, the impact of competitive products and pricing, technological and product development risks, the compromised liquidity of our auction rate securities, the transition to a new executive management team, and the other risks that are described herein and that are otherwise described from time to time in our filings with the Securities and Exchange Commission (“SEC”), including but not limited to, the items discussed in “Risk Factors” in Item 1A of Part II of this report. You should not unduly rely on forward-looking statements because our actual results could materially differ from those expressed in any forward-looking statements made by us. Further, any forward-looking statement applies only as of the date on which it is made. We are not required to update any forward-looking statement or statements to reflect events or circumstances after the date on which such statements are made or to reflect the occurrence of unanticipated events.

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

LATTICE SEMICONDUCTOR CORPORATION
CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS
(In thousands, except per share data)
(unaudited)

	Three months ended		Nine months ended	
	September 27, 2008	September 29, 2007	September 27, 2008	September 29, 2007
Revenue	\$ 57,610	\$ 58,304	\$ 172,293	\$ 175,654
Costs and expenses:				
Cost of products sold	26,493	26,705	77,204	79,516
Research and development	17,534	20,166	53,139	62,926
Selling, general and administrative	14,547	15,054	44,741	44,405
Amortization of intangible assets	1,369	2,458	4,218	7,790
Restructuring	3,882	1,718	6,530	1,615
	<u>63,825</u>	<u>66,101</u>	<u>185,832</u>	<u>196,252</u>
Loss from operations	(6,215)	(7,797)	(13,539)	(20,598)
Other (expense) income, net:	(999)	3,551	(10,186)	10,858
Loss before (benefit) provision for income taxes	(7,214)	(4,246)	(23,725)	(9,740)
(Benefit) Provision for income taxes	(236)	201	78	551
Net loss	<u>\$ (6,978)</u>	<u>\$ (4,447)</u>	<u>\$ (23,803)</u>	<u>\$ (10,291)</u>
Basic and diluted net loss per share	<u>\$ (0.06)</u>	<u>\$ (0.04)</u>	<u>\$ (0.21)</u>	<u>\$ (0.09)</u>
Shares used in per share calculations:				
Basic and diluted	<u>115,370</u>	<u>115,057</u>	<u>115,240</u>	<u>114,852</u>

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

LATTICE SEMICONDUCTOR CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEET
(In thousands, except share and par value data)
(unaudited)

	September 27, 2008	December 29, 2007
Assets		
Current assets:		
Cash and cash equivalents	\$ 51,569	\$ 37,332
Short-term marketable securities	17,023	47,731
Accounts receivable, net	29,879	29,293
Inventories	35,756	40,005
Current portion of foundry advances and investments	24,710	27,440
Prepaid expenses and other current assets	8,208	9,745
Total current assets	<u>167,145</u>	<u>191,546</u>
Foundry advances, investments and other assets	76,674	90,407
Property and equipment, less accumulated depreciation	42,017	43,617
Long-term marketable securities	27,436	44,900
Intangible assets, less accumulated amortization	1,596	5,815
Total assets	<u>\$ 314,868</u>	<u>\$ 376,285</u>
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable and accrued expenses	\$ 25,434	\$ 24,065
Accrued payroll obligations	6,980	8,913
Deferred income and allowances on sales to distributors	6,700	8,033
Zero Coupon Convertible Subordinated Notes due in 2010	—	40,000
Total current liabilities	<u>39,114</u>	<u>81,011</u>
Other long-term liabilities	7,640	9,042
Total liabilities	<u>46,754</u>	<u>90,053</u>
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$.01 par value, 10,000,000 shares authorized, none issued and outstanding	—	—
Common stock, \$.01 par value, 300,000,000 shares authorized, 115,442,000 and 115,134,000 shares issued and outstanding	1,154	1,151
Paid-in capital	616,430	611,508
Accumulated other comprehensive loss	(618)	(1,378)
Accumulated deficit	(348,852)	(325,049)
Total stockholders' equity	<u>268,114</u>	<u>286,232</u>
Total liabilities and stockholders' equity	<u>\$ 314,868</u>	<u>\$ 376,285</u>

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

LATTICE SEMICONDUCTOR CORPORATION
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
(In thousands)
(unaudited)

	Nine months ended	
	September 27, 2008	September 29, 2007
Cash flows from operating activities:		
Net loss	\$ (23,803)	\$ (10,291)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	16,139	21,054
Gain on extinguishment of convertible notes	—	(2,746)
Impairment of Long-term marketable securities and Other current assets	12,756	—
Loss on sale of UMC common stock	233	—
Gain on sale of land	—	(1,604)
Stock-based compensation	4,157	4,063
Changes in assets and liabilities:		
Accounts receivable, net	(586)	(8,552)
Inventories	4,249	2,139
Prepaid expenses and other current assets	(351)	2,232
Foundry advances (includes advance credits)	12,704	9,990
Accounts payable and accrued expenses (includes restructuring)	1,763	(47,369)
Accrued payroll obligations	(1,933)	(3,556)
Deferred income and allowances on sales to distributors	(1,333)	812
Other liabilities	440	88
Net cash provided by (used in) operating activities	<u>24,435</u>	<u>(33,740)</u>
Cash flows from investing activities:		
Proceeds from sales or maturities of marketable securities	74,232	268,962
Purchase of marketable securities	(37,841)	(168,162)
Proceeds from sale of UMC common stock	1,658	—
Proceeds from sale of land	—	2,249
Capital expenditures	(8,530)	(8,939)
Net cash provided by investing activities	<u>29,519</u>	<u>94,110</u>
Cash flows from financing activities:		
Extinguishment of Zero Coupon Convertible Subordinated Notes	(40,000)	(66,551)
Advances on yen line of credit	1,414	—
Payment on yen line of credit	(1,136)	(644)
Net proceeds from issuance of common stock	5	2,781
Net cash used in financing activities	<u>(39,717)</u>	<u>(64,414)</u>
Net increase (decrease) in cash and cash equivalents	14,237	(4,044)
Beginning cash and cash equivalents	37,332	40,437
Ending cash and cash equivalents	<u>\$ 51,569</u>	<u>\$ 36,393</u>
Supplemental disclosures of non-cash investing and financing activities:		
Unrealized loss on assets measured at fair value, net, included in Accumulated other comprehensive loss	\$ (26)	\$ (193)
Distribution of deferred compensation from trust assets	\$ 1,380	\$ 1,333

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

LATTICE SEMICONDUCTOR CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1 — Basis of Presentation and Significant Accounting Policies:

The accompanying Condensed Consolidated Financial Statements are unaudited and have been prepared by Lattice Semiconductor Corporation (the “Company”) pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”) and in our opinion include all adjustments, consisting of normal recurring adjustments, necessary for the fair statement of results for the interim periods. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. These Condensed Consolidated Financial Statements should be read in conjunction with our audited financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 29, 2007.

The preparation of financial statements in conformity with generally accepted accounting principles requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting periods. Our most critical estimate relates to Auction Rate Securities, and these estimates of fair value are made in accordance with the provisions of SFAS No. 157 “Fair Value Measurements” (“SFAS No. 157”). Actual results could differ from these estimates.

We report based on a 52 or 53-week year ending on the Saturday closest to December 31. Our third quarter of fiscal 2008 and 2007 ended on September 27, 2008 and September 29, 2007, respectively. All references to quarterly or three and nine months ended financial results are references to the results for the relevant fiscal period.

New Accounting Pronouncements

In December 2007, the Financial Accounting Standards Board (“FASB”) issued SFAS No. 141(R), “Business Combinations” (“SFAS No. 141(R)”). SFAS No. 141(R) provides revised guidance on how acquirers recognize and measure the consideration transferred, identifiable assets acquired, liabilities assumed, noncontrolling interests and goodwill acquired in a business combination. SFAS No. 141(R) also expands required disclosures surrounding the nature and financial effects of business combinations. SFAS No. 141(R) is effective, on a prospective basis, for fiscal years beginning after December 15, 2008. The application of SFAS No. 141(R) is not expected to have a material impact on the Company’s Condensed Consolidated Financial Statements.

In December 2007, the FASB issued SFAS No. 160, “Noncontrolling Interests in Consolidated Financial Statements” (“SFAS No. 160”), to improve the relevance, comparability and transparency of the financial information that a reporting entity provides in its consolidated financial statements by establishing accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS No. 160 is effective for financial statements issued for fiscal years beginning on or after December 15, 2008. The application of SFAS No. 160 is not expected to have a material impact on the Company’s Condensed Consolidated Financial Statements.

In March 2008, the FASB issued SFAS No. 161, “Disclosures about Derivative Instruments and Hedging Activities” (“SFAS No. 161”). The new standard is intended to improve financial reporting about derivative instruments and hedging activities by requiring enhanced disclosures to enable investors to better understand their effects on an entity’s financial position, financial performance and cash flows. SFAS No. 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. The application of SFAS No. 161 is not expected to have a material impact on the Company’s Condensed Consolidated Financial Statements.

In May 2008, the FASB issued SFAS No. 162, “The Hierarchy of Generally Accepted Accounting Principles” (“SFAS No. 162”). SFAS No. 162 identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles (the GAAP hierarchy). SFAS No. 162 will become effective 60 days following the SEC’s approval of the Public Company Accounting Oversight Board amendments to AU Section 411, “The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles.” The application of SFAS No. 162 is not expected to have a material impact on the Company’s Condensed Consolidated Financial Statements.

In May 2008, the FASB issued FSP Accounting Principles Board (“APB”) 14-1, “Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)” (“FSP APB 14-1”). FSP APB 14-1 requires the issuer of certain convertible debt instruments that may be settled in cash (or other assets) on conversion to separately account for the liability (debt) and equity (conversion option) components of the instrument in a manner that reflects the issuer’s non-convertible debt borrowing rate. FSP APB 14-1 is effective for fiscal years beginning after December 15, 2008 on a retroactive basis. The application of FSP APB 14-1 is not expected to have a material impact on the Company’s Condensed Consolidated Financial Statements.

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Note 2 — Net Loss Per Share:

Net loss per share is computed based on the weighted average number of shares of common stock and potentially dilutive securities assumed to be outstanding during the period using the treasury stock method. Potentially dilutive securities consist of stock options, restricted stock units (“RSUs”), warrants to purchase common stock and Zero Coupon Convertible Subordinated Notes due in 2010 (“Convertible Notes”) for the periods in which they were outstanding (see Note 11).

The computation of basic and diluted net loss per share for the three and nine months ended September 27, 2008, excludes the effects of stock options, non-vested RSUs, and warrants aggregating 20.7 million and 21.2 million shares, respectively, because the effect was antidilutive. The computation of basic and diluted net loss per share for the three and nine months ended September 29, 2007 excludes the effects of stock options, RSUs, and warrants aggregating 22.1 million and 22.2 million shares, respectively, because the effect was antidilutive. Stock options, non-vested RSUs and warrants are antidilutive when the aggregate of exercise price, unrecognized stock-based compensation expense and excess tax benefit are greater than the average market price for our common stock during the period or when there is a loss for the period.

Shares underlying the Convertible Notes, aggregating 0.8 million and 2.3 million for the three and nine months ended September 27, 2008, respectively, and 5.0 million and 6.6 million for the three and nine months ended September 29, 2007, respectively, are excluded from the computation of basic and diluted earnings per share, as the effect was antidilutive. Shares underlying Convertible Notes are antidilutive when there is a loss for the period or if loan servicing costs exceed the profit for the period (see Note 11).

Note 3 — Marketable Securities:

The following table summarizes the contractual maturities of our marketable securities (at fair value and in thousands):

	<u>September 27, 2008</u>	<u>December 29, 2007</u>
Short-term marketable securities:		
Due within one year	\$ 17,023	\$ 20,289
Due after one year through five years	—	7,192
Due after five years through ten years	—	5,675
Due after ten years	—	14,575
	<u>17,023</u>	<u>47,731</u>
Long-term marketable securities:		
Due after five years through ten years	8,380	14,000
Due after ten years	14,894	22,575
No contractual maturity date	4,162	8,325
	<u>27,436</u>	<u>44,900</u>
	<u>\$ 44,459</u>	<u>\$ 92,631</u>

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Even though stated maturity dates of certain marketable securities exceed one year beyond the balance sheet dates, all have been classified as current assets, except those auction rate securities experiencing unsuccessful auctions as of September 27, 2008 and December 29, 2007, respectively. In accordance with Accounting Research Bulletin No. 43, Chapter 3A, "Working Capital-Current Assets and Current Liabilities," we view our Short-term marketable securities as available for use in our current operations. The following table summarizes the composition of our marketable securities (at fair value and in thousands):

	September 27, 2008	December 29, 2007
Short-term marketable securities:		
Auction Rate Securities (by type of underlying asset):		
Federally-insured student loans	\$ —	\$ 8,075
Municipal bonds	—	12,175
Corporate and municipal bonds, notes and commercial paper	12,023	19,960
Market rate investments	5,000	7,521
	<u>17,023</u>	<u>47,731</u>
Long-term marketable securities:		
Auction Rate Securities (by type of underlying asset):		
Federally-insured student loans	14,894	16,875
Municipal bonds	—	5,700
Corporate bonds, subject to credit default swap risk	8,380	14,000
Commercial paper, with put option by AMBAC	4,162	8,325
	<u>27,436</u>	<u>44,900</u>
	<u>\$ 44,459</u>	<u>\$ 92,631</u>

At September 27, 2008 and December 29, 2007, we held auction rate securities that were considered illiquid with a face value of \$39.2 million and \$44.9 million, respectively, and an estimated fair value of \$27.4 million and \$44.9 million, respectively. These auction rate securities with investment grades of AAA, AA or A, except for an auction rate security with a face value of \$2.0 million (estimated fair value of \$0.8 million) collateralized by consumer credit card debt, are collateralized by federally-insured student loans, corporate bonds, notes, commercial paper, or bank deposit notes. Long-term marketable securities with a face value of \$14.0 million (estimated fair value of \$8.4 million) are exposed to risks associated with the sale of credit default swaps, pursuant to which the assets underlying the auction rate securities are exposed to claims in the event of default of certain debt instruments owned by third parties. In addition, for auction rate securities with a face value of \$8.3 million (estimated fair value of \$4.2 million) held in Long-term marketable securities, Ambac Assurance Corporation ("AMBAC", the issuer) can exercise a put option, which essentially replaces the auction rate security investment with preferred stock of AMBAC.

While the auctions for auction rate securities have historically provided a liquid market for these securities, due to liquidity issues in global credit and capital markets, auction rate securities held by us have experienced multiple failed auctions (a portion beginning in October 2007) as the amount of securities submitted for sale at the auctions has exceeded the amount of purchase orders. In addition, some of these securities have experienced downgrades, but continue to be considered investment grade by one or more rating agencies. These instruments are considered illiquid and have been reclassified as Long-term marketable securities on the Condensed Consolidated Balance Sheet. Due to the severity of the decline in fair value, the duration of the decline, and the downgrading of the credit ratings of some of the securities, the Company determined that an other-than-temporary decline in fair value had occurred, and recorded an impairment charge of \$1.4 million and \$11.8 million for the quarter and nine months ended September 27, 2008, respectively. If we were to liquidate our position in these securities, the amount realized could be materially different than the estimated fair value amounts at which we are carrying these securities and there could be a materially detrimental effect on our financial results.

In addition, the Company recorded an unrealized loss of \$0.1 million during the quarter ended September 27, 2008 on certain Short-term marketable securities, which has been recorded in Accumulated other comprehensive loss. Future fluctuations in fair value related to these instruments that the Company deems to be temporary, including any recoveries of previous write-downs, would be recorded to Accumulated other comprehensive loss. If the Company were to determine in the future that any further decline in fair value is other-than-temporary, we would record an impairment charge, which could have a materially detrimental impact on our operating results. If we were to liquidate our position in these securities, it is likely that the amount of any future realized gain or loss would be different from the unrealized gain reported in Accumulated other comprehensive loss.

Note 4 — Fair Value of Financial Instruments:

In September 2006, the FASB issued SFAS No. 157, which defines fair value, establishes a framework for measuring fair value and enhances disclosure requirements for fair value measurements. The Company adopted the provisions of SFAS No. 157 as of December 30, 2007 for financial instruments. Although the adoption of SFAS No. 157 did not materially impact its financial condition, results of operations, or cash flow, the Company is now required to provide additional disclosures as part of its financial statements.

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SFAS No. 157 establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include: *Level 1*, defined as observable inputs such as quoted prices in active markets for identical assets or liabilities; *Level 2*, defined as inputs other than quoted prices in active markets for similar assets or liabilities that are either directly or indirectly observable; and *Level 3*, defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions. As of September 27, 2008, the Company held certain assets and liabilities that are measured at fair value on a recurring basis. These include marketable securities (see Note 3), and foundry investments (see Note 7).

The Company's assets measured at fair value on a recurring basis subject to the disclosure requirements of SFAS No. 157 were as follows (in thousands):

	Fair value measurements as of September 27, 2008			
	Total	Level 1	Level 2	Level 3
Cash and cash equivalents	\$ 51,569	\$ 51,569	\$ —	\$ —
Short-term marketable securities	17,023	17,023	—	—
Long-term marketable securities	27,436	—	—	27,436
Total assets measured at fair value	<u>\$ 96,028</u>	<u>\$ 68,592</u>	<u>\$ —</u>	<u>\$ 27,436</u>

For our *Level 1* assets we utilized quoted prices in active markets for identical assets. For our *Level 3* assets we developed assumptions based on a number of data points, which includes access to broker provided inputs, issuer's credit quality, maturity, probability to be called and lack of liquidity. As a result of failed auctions on our auction rate securities, quoted prices in active markets are not readily available, and thus *Level 3* valuation is appropriate. During the nine months ended September 27, 2008, the following changes occurred in our *Level 3* assets (in thousands):

Fair value of Long-term marketable securities at December 29, 2007	\$ 44,900
Sold Long-term marketable securities	(5,700)
Impairment of Long-term marketable securities	(11,764)
Fair value of Long-term marketable securities at September 27, 2008	<u>\$ 27,436</u>

Based on market conditions, we recorded an impairment charge of \$1.4 million related to auction rate securities in the three months ended September 27, 2008 (see Note 3). We have also recorded an unrealized loss of \$0.1 million to Accumulated other comprehensive loss for investments held in Short-term marketable securities in the three months ended September 27, 2008 to reflect the fair value of these instruments.

Note 5 — Inventories (in thousands):

	September 27, 2008	December 29, 2007
Work in progress	\$ 26,270	\$ 28,933
Finished goods	9,486	11,072
	<u>\$ 35,756</u>	<u>\$ 40,005</u>

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Note 6 — Changes in Stockholders' Equity (in thousands):

	Common stock	Paid-in capital	Accumulated other comprehensive loss	Accumulated deficit	Total
Balances, December 29, 2007	\$ 1,151	\$ 611,508	\$ (1,378)	\$ (325,049)	\$ 286,232
Common stock issued in connection with exercise of stock options and ESPP and net vested RSUs	3	460	—	—	463
Unrealized loss on foundry investments	—	—	(309)	—	(309)
Impairment of foundry investments sold	—	—	992	—	992
Unrealized loss on marketable securities (see Note 4)	—	—	(10,371)	—	(10,371)
Realized loss on auction rate securities previously recorded as unrealized loss (see Note 4)	—	—	10,345	—	10,345
Stock-based compensation expense related to stock options, ESPP and RSUs	—	4,410	—	—	4,410
Distribution of stock held by deferred stock compensation plan	—	52	—	—	52
Translation adjustments	—	—	103	—	103
Net loss for nine months ended September 27, 2008	—	—	—	(23,803)	(23,803)
Balances, September 27, 2008	<u>\$ 1,154</u>	<u>\$ 616,430</u>	<u>\$ (618)</u>	<u>\$ (348,852)</u>	<u>\$ 268,114</u>

Total comprehensive loss for the first nine months of fiscal 2008 was approximately \$23.0 million and is substantially comprised of a \$11.3 million loss related to an impairment charge to auction rate securities and foundry investments (see Note 4) and a net loss from operations of approximately \$13.5 million.

Note 7 — Foundry Advances, Investments and Other Assets (in thousands):

	September 27, 2008	December 29, 2007
Foundry advances, investments and other assets	\$ 101,384	\$ 117,847
Less: Current portion of foundry advances and investments	(24,710)	(27,440)
	<u>\$ 76,674</u>	<u>\$ 90,407</u>

On July 29, 2008, we sold our entire investment of 3.6 million shares of the common stock of United Microelectronics Corporation, a public Taiwanese company. The fair value (see Note 4) of such common stock was \$2.2 million at December 29, 2007, and was included in Current portion of foundry advances and investments.

[Table of Contents](#)**Note 8 — Intangible Assets (in millions):**

	<u>Gross</u>	<u>Accumulated amortization</u>	<u>Net</u>
<u>September 27, 2008</u>			
Current technology	\$273.6	\$ 272.4	\$1.2
Licenses	10.2	9.8	0.4
Total	<u>\$283.8</u>	<u>\$ 282.2</u>	<u>\$1.6</u>
<u>December 29, 2007</u>			
Current technology	\$273.6	\$ (269.3)	\$4.3
Licenses	10.2	(8.7)	1.5
Total	<u>\$283.8</u>	<u>\$ (278.0)</u>	<u>\$5.8</u>

At September 27, 2008 we had net purchased intangible assets related to current technology and licenses of approximately \$1.2 million and \$0.4 million, respectively, which will be fully amortized by the end of the first quarter of 2009.

Note 9 — Income Taxes:

We are subject to federal income tax as well as income tax of multiple state and foreign jurisdictions. We are no longer subject to federal, state and local, or foreign income tax examinations for years before 2000. We have federal net operating loss carryforwards that expire at various dates between 2021 and 2028. We have state net operating loss carryforwards that expire at various dates from 2008 through 2028. We also have federal and state credit carryforwards, some of which do not expire, with the remainder expiring at various dates from 2008 through 2028. We have provided a valuation allowance equal to our net federal and state deferred tax assets due to uncertainties regarding their realization.

On July 30, 2008 The Housing and Economic Recovery Act of 2008 was signed into law. This act enables taxpayers to accelerate certain unused income tax credits. The Company recorded an income tax benefit of \$0.3 million during the quarter ended September 27, 2008 related to the acceleration of its research tax credits and \$0.2 million related to a refund of previous taxes in the People's Republic of China, partially offset by additional provision for foreign income taxes for 2008.

The Internal Revenue Service has examined our income tax returns for 2001 and 2002, and has issued proposed adjustments of \$1.4 million, plus interest. These adjustments relate to the treatment of acquisition costs and a tax accounting method change for prepaid expenses. Although we do not agree with the proposed adjustment related to the prepaid expense matter, we believe that we have reached a tentative agreement concerning the acquisition costs. During the three months ended March 29, 2008, we made a payment of \$0.3 million related to this tentative agreement. On May 23, 2008 the Company filed a petition with the Tax Court seeking a redetermination of the prepaid expense adjustment. Although the final resolution of this matter is uncertain, we believe that adequate amounts have been provided for as unrecognized tax benefits. There is the possibility of either favorable or unfavorable effect on our results of operations in the period in which these matters are effectively settled. We will recognize any uncertain tax benefit in the quarter settled.

We are subject to state and local income tax examinations for the years 2001 through 2003. To date, there are no proposed adjustments that are expected to have a material adverse effect on our results of operations. We are not currently under examination in any foreign jurisdictions.

At September 27, 2008, it is reasonably possible that \$2.2 million of unrecognized tax benefits and associated interest and penalties could significantly change during the next twelve months. The \$2.2 million potential change may represent a decrease in unrecognized tax benefits, comprised of items related to matters currently in IRS appeals, certain federal and state credits and uncertain income tax positions related to foreign tax filings for years that will no longer be subject to examination under expiring statutes of limitations.

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Note 10 — Restructuring:

During the third quarter of 2008, we initiated a restructuring plan (“2008 restructuring plan”) to better align operating expenses with near-term revenue expectations, primarily by reducing headcount. We recorded an initial restructuring charge of \$3.8 million under the 2008 restructuring plan that is comprised primarily of severance and related costs of which \$1.9 million was paid during the third quarter of 2008. The Company expects the 2008 restructuring plan to be substantially complete by the end of fiscal 2008.

The following table displays the current estimate for each major type of cost associated with the 2008 restructuring plan (in thousands):

	<u>Initial accrual</u>	<u>Paid or Settled</u>	<u>Balance at September 27, 2008</u>
Severance and related	\$ 3,631	\$ (1,754)	\$ 1,877
Other	207	(147)	60
Total	<u>\$ 3,838</u>	<u>\$ (1,901)</u>	<u>\$ 1,937</u>

During the third quarter of 2007, we approved and initiated a restructuring plan (“2007 restructuring plan”) to lower operating expenses primarily by reducing headcount. This plan encompassed a reduction in work force, a voluntary separation program for certain employees and the closure of certain leased facilities.

The following table displays the activity for each major type of cost associated with the 2007 restructuring plan (in thousands):

	<u>Balance at December 29, 2007</u>	<u>Charged to expense</u>	<u>Paid or settled</u>	<u>Adjustments to reserve</u>	<u>Balance at September 27, 2008</u>	<u>Aggregate expense and adjustments at September 27, 2008</u>
Severance and related	\$ 119	\$ 1,273	\$ (375)	\$ (4)	\$ 1,013	\$ 3,670
Lease loss reserve	—	1,372	(938)	—	434	1,388
Other	65	43	(85)	(4)	19	325
Total	<u>\$ 184</u>	<u>\$ 2,688</u>	<u>\$(1,398)</u>	<u>\$ (8)</u>	<u>\$ 1,466</u>	<u>\$ 5,383</u>

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Included in our Condensed Consolidated Statement of Operations and reported as Restructuring charges for the nine months ended September 27, 2008 is a net charge to operating expenses of \$2.7 million related to the 2007 restructuring plan. This amount is comprised primarily of \$1.4 million related to future lease payments associated with a vacated facility in San Jose, California, \$1.0 million in severance costs and a non-cash charge of \$0.3 million for the effects of accelerated vesting related to the resignation of our former President and Chief Executive Officer effective May 31, 2008.

In addition to the amounts recorded for the 2007 restructuring plan, at September 27, 2008 the Condensed Consolidated Balance Sheet included \$0.4 million related to operating lease commitments accrued as remaining costs under provisions of a restructuring plan initiated and completed during the fourth quarter of 2005 (“2005 restructuring plan”) to reduce operating expenses. From the period beginning with the fourth quarter of 2005 through the third quarter of 2008, the aggregate expense under the 2005 restructuring plan is \$11.9 million.

The above restructuring accruals at September 27, 2008 are based on estimates that are subject to change.

Note 11 — Zero Coupon Convertible Subordinated Notes due in 2010:

On June 20, 2003, we issued \$200.0 million in Convertible Notes. In October 2003, our Board of Directors authorized management to purchase up to \$100.0 million of our Convertible Notes. In November 2006, our Board of Directors authorized management to purchase up to an additional \$20.0 million, and in August 2007, our Board of Directors authorized management to purchase up to an additional \$40.0 million of our Convertible Notes, for an aggregate potential purchase amount of \$160.0 million. The Company purchased a total of \$160.0 million in Convertible Notes from 2003 through 2007.

On July 2, 2008, the Company completed the purchase of \$40.0 million in principal amount of its Convertible Notes in accordance with the provisions of the Indenture dated June 20, 2003 and pursuant to the exercise by the noteholders of their repurchase rights. As a result of these purchases, no Convertible Notes remain outstanding.

Note 12 — Stock-Based Compensation:

Effective January 1, 2006, we began recording employee and director stock option and Employee Stock Purchase Plan (“ESPP”) compensation expense in accordance with SFAS No. 123(R), “Share Based Payment — a revision of SFAS No. 123, Accounting for Stock-Based Compensation” (“SFAS No. 123(R)”), as interpreted by SEC Staff Accounting Bulletin No. 107 (“SAB 107”). Total stock-based compensation expense was included in the Condensed Consolidated Statement of Operations as follows (in thousands):

<u>Line item:</u>	<u>Three Months Ended</u>		<u>Nine Months Ended</u>	
	<u>September 27, 2008</u>	<u>September 29, 2007</u>	<u>September 27, 2008</u>	<u>September 29, 2007</u>
Cost of products sold	\$ 120	\$ 108	\$ 332	\$ 363
Research and development	680	664	1,939	2,034
Selling, general and administrative	695	577	1,886	1,666
	<u>\$ 1,495</u>	<u>\$ 1,349</u>	<u>\$ 4,157</u>	<u>\$ 4,063</u>

Note 13 — Legal Matters:

On June 11, 2007, a patent infringement lawsuit was filed by Lizy K. John (“John”) against Lattice Semiconductor Corporation in the U.S. District Court for the Eastern District of Texas, Marshall Division. John seeks an injunction, unspecified damages, and attorneys’ fees and expenses. The Company filed a request for re-examination of the patent by the United States Patent and Trademark Office (“PTO”), which was granted by the PTO, and the re-examination is in progress. The litigation has been stayed pending the results of the re-examination. Neither the likelihood nor the amount of any potential exposure to the Company is estimable at this time.

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

[Table of Contents](#)**Note 14 — Segment and Geographic Information:**

We operate in one industry segment comprising the design, development, manufacture and marketing of high performance programmable logic devices. Our revenue by major geographic area was as follows (in thousands):

	Three Months Ended				Nine Months Ended			
	September 27, 2008		September 29, 2007		September 27, 2008		September 29, 2007	
United States:	\$ 9,877	17%	\$ 9,687	17%	\$ 28,794	17%	\$ 33,609	19%
Export revenue:								
China	17,577	31	15,510	27	48,118	28	39,344	22
Europe	11,473	20	11,718	20	35,930	21	35,573	20
Japan	7,170	13	7,481	13	23,927	14	22,868	13
Taiwan	5,418	9	5,909	10	16,619	9	20,095	12
Other Asia	4,176	7	5,462	9	12,331	7	18,278	11
Other Americas	1,919	3	2,537	4	6,574	4	5,887	3
Total export revenue	<u>47,733</u>	<u>83</u>	<u>48,617</u>	<u>83</u>	<u>143,499</u>	<u>83</u>	<u>142,045</u>	<u>81</u>
Total revenue	<u>\$ 57,610</u>	<u>100%</u>	<u>\$ 58,304</u>	<u>100%</u>	<u>\$ 172,293</u>	<u>100%</u>	<u>\$ 175,654</u>	<u>100%</u>

Revenue attributable to our three largest distributors, Arrow Electronics, Inc., Avnet, Inc. and Promaster Technology Corporation accounted for approximately 12%, 14% and 10%, respectively, of revenue in the first nine months of fiscal 2008, and 13%, 15% and 10%, respectively, of revenue for the first nine months of fiscal 2007. More than 90% of our property and equipment is located in the United States.

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

Lattice Semiconductor Corporation (the "Company") designs, develops and markets high performance programmable logic products and related software. Programmable logic products are widely used semiconductor components that can be configured by the end customer as specific logic circuits, and thus enable shorter design cycle times and reduced development costs. Within the programmable logic market there are two main components: field programmable gate arrays ("FPGAs") and programmable logic devices ("PLDs"), each representing a distinct silicon architectural approach. Products based on the two alternative programmable logic architectures are generally optimal for different types of logic functions, although many logic functions can be implemented using either architecture. We believe that a substantial portion of programmable logic customers utilize both FPGA and PLD architectures. Our end customers are primarily original equipment manufacturers in the communications, computing, consumer, industrial, automotive, medical and military end markets.

Critical Accounting Policies and Estimates

Critical accounting policies are those that are both most important to the portrayal of a company's financial condition and results of operations and require management's most difficult, subjective and complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. Management believes that there have been no significant changes during the nine months ended September 27, 2008 to the items that we disclosed as our critical accounting policies and estimates in Management's Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the fiscal year ended December 29, 2007, except for the adoption of Statements of Financial Accounting Standards No. 157 ("SFAS No. 157") effective December 30, 2007.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts and classification of assets, such as marketable securities, accounts receivable, inventory and deferred income taxes and liabilities, such as accrued liabilities, income taxes and deferred income and allowances on sales to certain distributors, 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. Our most critical estimate relates to Auction Rate Securities and these fair value estimates are made in accordance with the provisions of SFAS No. 157. Actual results could differ from those estimates.

New Accounting Pronouncements

In December 2007, the Financial Accounting Standards Board ("FASB") issued SFAS No. 141(R), "Business Combinations" ("SFAS No. 141(R)"). SFAS No. 141(R) provides revised guidance on how acquirers recognize and measure the consideration transferred, identifiable assets acquired, liabilities assumed, noncontrolling interests and goodwill acquired in a business combination. SFAS No. 141(R) also expands required disclosures surrounding the nature and financial effects of business combinations. SFAS No. 141(R) is effective, on a prospective basis, for fiscal years beginning after December 15, 2008. The application of SFAS No. 141(R) is not expected to have a material impact on the Company's Condensed Consolidated Financial Statements.

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements" ("SFAS No. 160"), to improve the relevance, comparability, and transparency of the financial information that a reporting entity provides in its consolidated financial statements by establishing accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS No. 160 is effective for financial statements issued for fiscal years beginning on or after December 15, 2008. The application of SFAS No. 160 is not expected to have a material impact on the Company's Condensed Consolidated Financial Statements.

In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities" ("SFAS No. 161"). The new standard is intended to improve financial reporting about derivative instruments and hedging activities by requiring enhanced disclosures to enable investors to better understand their effects on an entity's financial position, financial performance and cash flows. SFAS No. 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. The application of SFAS No. 161 is not expected to have a material impact on the Company's Condensed Consolidated Financial Statements.

In May 2008, the FASB issued SFAS No. 162, "The Hierarchy of Generally Accepted Accounting Principles" ("SFAS No. 162"). SFAS No. 162 identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles (the GAAP hierarchy). SFAS No. 162 will become effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board amendments to AU Section 411, "The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles." The application of SFAS No. 162 is not expected to have a material impact on the Company's Condensed Consolidated Financial Statements.

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In May 2008, the FASB issued FSP Accounting Principles Board (“APB”) 14-1, “Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)” (“FSP APB 14-1”). FSP APB 14-1 requires the issuer of certain convertible debt instruments that may be settled in cash (or other assets) on conversion to separately account for the liability (debt) and equity (conversion option) components of the instrument in a manner that reflects the issuer’s non-convertible debt borrowing rate. FSP APB 14-1 is effective for fiscal years beginning after December 15, 2008 on a retroactive basis. The application of FSP APB 14-1 is not expected to have a material impact on the Company’s Condensed Consolidated Financial Statements.

Results of Operations

Revenue

Key elements of our Condensed Consolidated Statement of Operations (dollars in thousands), and expressed as a percentage of revenues, were as follows:

	Three Months Ended				Nine Months Ended			
	September 27, 2008		September 29, 2007		September 27, 2008		September 29, 2007	
Revenue	\$ 57,610	100.0%	\$ 58,304	100.0%	\$ 172,293	100.0%	\$ 175,654	100.0%
Gross margin	31,117	54.0	31,599	54.2	95,089	55.2	96,138	54.7
Research and development	17,534	30.4	20,166	34.6	53,139	30.8	62,926	35.8
Selling, general and administrative	14,547	25.3	15,054	25.8	44,741	26.0	44,405	25.3
Amortization of intangible assets	1,369	2.4	2,458	4.2	4,218	2.5	7,790	4.4
Restructuring	3,882	6.7	1,718	3.0	6,530	3.8	1,615	0.9
Loss from operations	\$ (6,215)	(10.8)%	\$ (7,797)	(13.4)%	\$ (13,539)	(7.9)%	\$ (20,598)	(11.7)%

Revenue for our business in the third quarter and nine months ended September 27, 2008 decreased to \$57.6 million and \$172.3 million, respectively, compared to \$58.3 million and \$175.7 million for the third quarter and nine months ended September 29, 2007, respectively. The decrease is primarily due to a reduction in revenue from Mainstream and Mature products, partially offset by an increase in total revenue from New products.

The decline in revenue for all periods presented is primarily related to the decline in the military end market. The communications end market accounted for approximately 54% of our revenue for the third quarter ended September 27, 2008 and September 29, 2007 and 54% and 50% for the nine months ended September 27, 2008 and September 29, 2007, respectively. Accordingly, a significant portion of our revenue is dependent on the health of this end market.

Revenue by Product Line

From a product line viewpoint, in the three months and nine months ended September 27, 2008, there was a 21% and 12% increase in FPGA revenue, respectively, due to varying product mix compared to the third quarter and nine months ended September 29, 2007. PLD revenue decreased 8% and 6% for the third quarter and nine months ended September 27, 2008, respectively, compared to the third quarter and nine months ended September 29, 2007. PLD units sold decreased in the third quarter and nine months ended September 27, 2008 by 11% and 12%, respectively, compared to the third quarter and nine months ended 2007; however, these decreases were partially offset by an increase in average selling price caused by varying product mix.

The composition of our revenue by product line for the third quarter and first nine months of fiscal 2008 and 2007 was as follows (dollars in thousands):

	Three Months Ended				Nine Months Ended			
	September 27, 2008		September 29, 2007		September 27, 2008		September 29, 2007	
FPGA	\$ 16,453	29%	\$ 13,576	23%	\$ 43,528	25%	\$ 38,966	22%
PLD	41,157	71	44,728	77	128,765	75	136,688	78
Total Revenue	\$ 57,610	100%	\$ 58,304	100%	\$ 172,293	100%	\$ 175,654	100%

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Revenue by Product Classification

Revenue for New products increased 111% and 109% for the third quarter and first nine months of fiscal 2008, respectively, compared to the third quarter and first nine months of fiscal 2007, as a result of increased unit sales partially offset by a decrease in average selling price. Revenue for Mainstream products decreased 18% and 8% for the third quarter and first nine months of fiscal 2008 compared to the third quarter and first nine months of 2007, primarily due to a decline in unit sales of PLD products across multiple market segments related to inventory reductions at customers primarily in Taiwan and Other Asia, partially offset by an increase in average selling price caused by varying product mix. Mature products revenue decreased 22% and 26% for the third quarter and first nine months of fiscal 2008, respectively, compared to the third quarter and first nine months of fiscal 2007 primarily as a result of decreased unit sales. Among other things, future revenue growth is dependent on overall economic conditions for our industry and market acceptance of our New products as well as continued demand for our Mature and Mainstream products.

The composition of our revenue by product classification for the third quarter and first nine months of fiscal 2008 and 2007 was as follows (dollars in thousands):

	Three Months Ended				Nine Months Ended			
	September 27, 2008		September 29, 2007		September 27, 2008		September 29, 2007	
New *	\$ 17,511	30%	\$ 8,313	14%	\$ 41,032	24%	\$ 19,606	11%
Mainstream *	24,968	43	30,547	53	80,770	47	87,875	50
Mature *	15,131	27	19,444	33	50,491	29	68,173	39
Total Revenue	<u>\$ 57,610</u>	<u>100%</u>	<u>\$ 58,304</u>	<u>100%</u>	<u>\$ 172,293</u>	<u>100%</u>	<u>\$ 175,654</u>	<u>100%</u>

* Product Classification:

New: LatticeXP2, LatticeSC, LatticeECP2/M, LatticeECP, LatticeXP, MachXO, Power Manager, ispClock

Mainstream: FPSC, ispXPLD, ispGDX2, ispMACH 4/LV, ispGDX/V, ispMACH 4000/Z, ispXPGA, Software and IP

Mature: ORCA 2, ORCA 3, ORCA 4, ispPAC, ispLSI 8000V, ispMACH 5000B, ispMACH 2LV, ispMACH 5LV, ispLSI 2000V, ispLSI 5000V, ispMACH 5000VG, all 5-Volt CPLDs, all SPLDs

Revenue by Geography

Export revenue as a percentage of total revenue was 83% for the third quarter and first nine months of fiscal 2008, compared to 83% and 81% for the third quarter and first nine months of fiscal 2007, respectively. Export revenue as a percentage of overall revenue increased due to relatively more favorable business conditions in Asia and a continuing trend towards outsourcing of manufacturing by North American customers. Due to the dependence on export revenue, among other things, future revenue growth is dependent on world economics, the effects of weakening foreign currencies compared to the U.S. dollar and other macroeconomic conditions.

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

	Three Months Ended				Nine Months Ended			
	September 27, 2008		September 29, 2007		September 27, 2008		September 29, 2007	
United States:	\$ 9,877	17%	\$ 9,687	17%	\$ 28,794	17%	\$ 33,609	19%
Export revenue:								
China	17,577	31	15,510	27	48,118	28	39,344	22
Europe	11,473	20	11,718	20	35,930	21	35,573	20
Japan	7,170	13	7,481	13	23,927	14	22,868	13
Taiwan	5,418	9	5,909	10	16,619	9	20,095	12
Other Asia	4,176	7	5,462	9	12,331	7	18,278	11
Other Americas	1,919	3	2,537	4	6,574	4	5,887	3
Total export revenue	<u>47,733</u>	<u>83</u>	<u>48,617</u>	<u>83</u>	<u>143,499</u>	<u>83</u>	<u>142,045</u>	<u>81</u>
Total revenue	<u>\$ 57,610</u>	<u>100%</u>	<u>\$ 58,304</u>	<u>100%</u>	<u>\$ 172,293</u>	<u>100%</u>	<u>\$ 175,654</u>	<u>100%</u>

Gross Margin and Operating Expenses

Our gross margin percentage decreased to 54.0% and increased to 55.2% in the third quarter and first nine months of fiscal 2008, respectively, from 54.2% and 54.7% in the third quarter and first nine months of fiscal 2007, respectively. The decrease in gross margin was primarily attributable to varying product mix.

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Research and development expense decreased to \$17.5 million and \$53.1 million in the third quarter and first nine months of fiscal 2008, respectively, compared to \$20.2 million and \$62.9 million in the third quarter and first nine months of fiscal 2007, primarily as a result of a decrease in engineering mask and wafer costs and reduced head count expenses resulting from the 2008 and 2007 restructuring plans. We believe that a continued commitment to research and development is essential in order to provide innovative new product offerings and maintain competitiveness in our industry, and therefore we may be required to make increased investments in engineering mask and wafer costs.

Selling, general and administrative expenses decreased to \$14.5 million and increased to \$44.7 million in the third quarter and first nine months of fiscal 2008, respectively, compared to \$15.1 million and \$44.4 million in the third quarter and first nine months of fiscal 2007, respectively, primarily as a result of the reduced headcount expenses resulting from the 2008 and 2007 restructuring plans and a \$0.9 million reversal of an accrual for legal expenses in the first three months of 2007.

Amortization of intangible assets was \$1.4 million and \$4.2 million for the third quarter and first nine months of fiscal 2008, respectively, compared to \$2.5 million and \$7.8 million in the third quarter and first nine months of fiscal 2007. Intangible assets related to the acquisition of Cerdelinx Technologies, Inc. became fully amortized as of September 29, 2007. Amortization charges related to our other intangible assets will be eliminated by the end of the first quarter of 2009.

Restructuring activity relates primarily to the 2007 restructuring plan initiated during the third quarter of 2007 and the 2008 restructuring plan initiated during the third quarter of fiscal 2008. Included in our Condensed Consolidated Statement of Operations and reported as Restructuring for the third quarter and first nine months of fiscal 2008 is a net charge of \$3.9 million and \$6.5 million, respectively. The amount through the first nine months of 2008 consists primarily of \$3.8 million in severance and related costs under the 2008 restructuring plan. Remaining charges for that period relate primarily to the 2007 restructuring plan of which \$1.4 million related to future lease payments associated with a vacated facility in San Jose, California and \$1.0 million in severance costs, of which \$0.3 million is a non-cash charge resulting from the accelerated vesting of stock options, related to the resignation of our former President and Chief Executive Officer announced on February 1, 2008.

Other (expense) income, net

Other (expense) income, net was an expense of \$1.0 million in the third quarter of fiscal 2008 and included an impairment charge of \$1.4 million related to an other-than-temporary decline in the fair value of auction rate securities held in Long-term marketable securities and \$0.2 million related to a loss on the sale of our common stock investment in a foundry partner held in Other current assets, partially offset by interest on marketable securities and cash equivalents of \$0.9 million. The impairment charge to Long-term marketable securities was recorded due to the severity of the decline in fair value, the duration of the decline, and the downgrading of the credit ratings of some of the securities during the quarter.

Other (expense) income, net was \$3.6 million in the third quarter of fiscal 2007 and included a gain on the extinguishment of Zero Coupon Convertible Subordinated Notes due July 1, 2010 ("Convertible Notes") of \$1.7 million and interest on marketable securities and cash equivalents of \$1.9 million.

The decrease in interest income is the result of a reduction in the average invested balances and lower interest rates for those invested balances in Marketable securities for the third quarter of fiscal 2008 compared to the third quarter of fiscal 2007.

Other (expense) income, net was an expense of \$10.2 million in the first nine months of fiscal 2008 and included an impairment charge of \$11.8 million related to an other-than-temporary decline in the fair value of auction rate securities held in Long-term marketable securities and an impairment charge of \$1.2 million related to an other-than-temporary decline in the fair value of our common stock investment in a foundry partner held in Other current assets partially offset by interest on marketable securities and cash equivalents of \$3.3 million. The impairment charge to Long-term marketable securities was recorded due to the severity of the decline in fair value, the duration of the decline, and the downgrading of the credit ratings of some of the securities during the quarter.

Other (expense) income, net was \$10.9 million in the first nine months of fiscal 2007 and included a gain on the extinguishment of Convertible Notes of \$2.7 million, interest on marketable securities and cash equivalents of \$6.3 million and a gain on the sale of land of \$1.6 million.

The decrease in interest income is the result of a reduction in the average invested balances and lower interest rates for those invested balances in Marketable securities for the first nine months of fiscal 2008 compared to the first nine months of fiscal 2007.

(Benefit) Provision for income taxes

We are paying foreign income taxes, which are reflected in the Provision for income taxes in the Condensed Consolidated Statement of Operations and are primarily related to the cost of operating an offshore research and development subsidiary and sales subsidiaries. We are not currently paying federal income taxes and do not expect to pay such taxes until the benefits of our tax net operating losses are fully utilized. We expect to pay a nominal amount of state income tax. We also accrue interest and penalties related to unrecognized tax benefits in the Provision for income taxes. See Note 9 to the Consolidated Condensed Financial Statements.

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On July 30, 2008 The Housing and Economic Recovery Act of 2008 was signed into law. This act enables taxpayers to accelerate certain unutilized income tax credits. The Company recorded an income tax benefit of \$0.3 million during the quarter ended September 27, 2008 related to the acceleration of its research tax credits and \$0.2 million related to a refund of previous taxes in the People's Republic of China, partially offset by additional provision for foreign income taxes for 2008.

Liquidity and Capital Resources

Financial Condition (Sources and Uses of Cash) (in thousands):

	Nine Months Ended	
	September 27, 2008	September 29, 2007
Net cash provided by (used in) operating activities	\$ 24,435	\$ (33,740)
Net cash provided by investing activities	29,519	94,110
Net cash used in financing activities	(39,717)	(64,414)
Net increase (decrease) in cash and cash equivalents	<u>\$ 14,237</u>	<u>\$ (4,044)</u>

Operating Activities

Net cash provided by operating activities was \$24.4 million in the first nine months of fiscal 2008, compared to Net cash used in operating activities of \$33.7 million in the first nine months of fiscal 2007, primarily as a result of a \$37.5 million advance payment made to Fujitsu Limited ("Fujitsu") in the first nine months of fiscal 2007, while no payment was made in the first nine months of fiscal 2008, and increased usage of Fujitsu advance credits in the first nine months of 2008. The Company utilized approximately \$2.0 million in additional inventory for the first nine months of fiscal 2007 and the first nine months of fiscal 2008. There was no significant change in Accounts receivable, net.

Investing Activities

Net cash provided by investing activities decreased by \$64.6 million in the first nine months of fiscal 2008 compared to the first nine months of fiscal 2007. The decrease was due to the sales of marketable securities to fund the \$37.5 million advance payment to Fujitsu and the \$66.6 million used to extinguish Convertible Notes in the first nine months of fiscal 2007, while no payments were made to Fujitsu and only \$40.0 million was used to extinguish Convertible Notes in the first nine months of fiscal 2008. Further, purchases of marketable securities decreased due to a shift in our investment policy toward cash equivalents and corporate bonds, notes, and commercial paper in response to the uncertainties in the global credit and capital markets.

Financing Activities

Net cash used in financing activities decreased \$24.7 million for the first nine months of fiscal 2008 compared to the first nine months of fiscal 2007. The decrease was primarily due to the use of \$66.6 million to extinguish Convertible Notes in the first nine months of fiscal 2007, while only \$40.0 million was used to extinguish Convertible Notes in the first nine months of fiscal 2008.

Liquidity

As of September 27, 2008, our principal source of liquidity was \$68.6 million of Cash and cash equivalents and Short-term marketable securities, which were approximately \$16.5 million less than the Cash and cash equivalents and Short-term marketable securities balance of \$85.1 million at December 29, 2007. Working capital increased to \$128.0 million at September 27, 2008 from \$110.5 million at December 29, 2007. On July 2, 2008, the Company completed the purchase of \$40.0 million in principal amount of its Convertible Notes in accordance with the provisions of the Indenture dated June 20, 2003 and pursuant to the exercise by the noteholders of their repurchase rights. Based on these purchases, no such Convertible Notes remain outstanding.

We believe that our existing liquid resources and cash expected to be generated from future operations, combined with advance credits from our foundries, will be adequate to meet our operating and capital requirements and obligations for the next twelve months. As of March 31, 2007, we had completed the unsecured advance payments of an aggregate of \$125.0 million to Fujitsu. The advance payments will be returned to us in the form of wafer credits or other services (including engineering mask set charges), subject to the right of either party to terminate the agreement upon the occurrence of certain events. Collectively, wafer credits and other services are referred to as "advance credits". As of September 27, 2008, \$30.9 million had been returned to us in the form of advance credits, and we expect an additional \$24.7 million to be returned to us in the form of advance credits during the next twelve months. Beginning December 31, 2008, the Company has the right to request the repayment of some, or all, of the unused amount of the advance payments. The repayment obligation of Fujitsu is unsecured.

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At September 27, 2008 and December 29, 2007, we held auction rate securities that were considered illiquid with a face value of \$39.2 million and \$44.9 million, respectively, and an estimated fair value of \$27.4 million and \$44.9 million, respectively. These auction rate securities with investment grades of AAA, AA or A, except for an auction rate security with a face value of \$2.0 million (estimated fair value of \$0.8 million) collateralized by consumer credit card debt, are collateralized by federally-insured student loans, corporate bonds, notes, commercial paper, or bank deposit notes. Long-term marketable securities with a face value of \$14.0 million (estimated fair value of \$8.4 million) are exposed to risks associated with the sale of credit default swaps, pursuant to which the assets underlying the auction rate securities are exposed to claims in the event of default of certain debt instruments owned by third parties. In addition, for auction rate securities with a face value of \$8.3 million (estimated fair value of \$4.2 million) held in Long-term marketable securities, Ambac Assurance Corporation (“AMBAC”, the issuer) can exercise a put option, which essentially replaces the auction rate security investment with preferred stock of AMBAC.

While the auctions for auction rate securities have historically provided a liquid market for these securities, due to liquidity issues in global credit and capital markets, auction rate securities held by us have experienced multiple failed auctions (a portion beginning in October 2007) as the amount of securities submitted for sale at the auctions has exceeded the amount of purchase orders. In addition, some of these securities have experienced downgrades, but continue to be considered investment grade by one or more rating agencies. These instruments are considered illiquid and have been reclassified as Long-term marketable securities on the Condensed Consolidated Balance Sheet. Due to the severity of the decline in fair value, the duration of the decline, and the downgrading of the credit ratings of some of the securities, the Company determined that an other-than-temporary decline in fair value had occurred, and recorded an impairment charge of \$1.4 million and \$11.8 million for the quarter and nine months ended September 27, 2008, respectively. If we were to liquidate our position in these securities, the amount realized could be materially different than the estimated fair value amounts at which we are carrying these securities and there could be a materially detrimental effect on our financial results.

In addition, the Company recorded an unrealized loss of \$0.1 million during the quarter ended September 27, 2008 on certain Short-term marketable securities, which has been recorded in Accumulated other comprehensive loss. Future fluctuations in fair value related to these instruments that the Company deems to be temporary, including any recoveries of previous write-downs, would be recorded to Accumulated other comprehensive loss. If the Company were to determine in the future that any further decline in fair value is other-than-temporary, we would record an impairment charge, which could have a materially detrimental impact on our operating results. If we were to liquidate our position in these securities, it is likely that the amount of any future realized gain or loss would be different from the unrealized gain reported in Accumulated other comprehensive loss.

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

Contractual Obligations

There have been no significant changes to the Company's contractual obligations outside of the ordinary course of business in the first nine months of fiscal 2008 as summarized in Management's Discussion and Analysis of Financial Condition and Results of Operations in the Company's Annual Report on Form 10-K for the year ended December 29, 2007.

Off-Balance Sheet Arrangements

As of September 27, 2008 we did not have any off-balance sheet arrangements, as defined in Item 303(a)(4)(ii) of SEC Regulation S-K.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

At September 27, 2008, the Company had investments in auction rate securities. Due to liquidity issues in global credit and capital market conditions, these auction rate securities have experienced multiple failed auctions. We have recorded an impairment charge to Other (expense) income, net to reflect our estimate of the fair value of these instruments as other-than-temporary. For a complete discussion on auction rate securities, see Notes 3 and 4 to the Company's Condensed Consolidated Financial Statements.

Except for the above, there have been no material changes to the quantitative and qualitative disclosures about market risk reported in our Annual Report on Form 10-K for the year ended December 29, 2007.

ITEM 4. CONTROLS AND PROCEDURES

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

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

Changes in Internal Control over Financial Reporting

There has been no change in our internal control over financial reporting that occurred in our fiscal quarter ended September 27, 2008 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The information set forth above under Note 13 contained in the “Notes to Consolidated Condensed Financial Statements” is incorporated herein by reference.

ITEM 1A. RISK FACTORS

The risk factors included herein include any material changes to and supersede the description of the risk factors associated with our business previously disclosed in Item 1A of our Annual Report on Form 10-K for the year ended December 29, 2007. The following risk factors and other information included in this Quarterly Report should be carefully considered. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties not presently known to us or that we currently deem immaterial also may impair our business operations. If any of the following risks occur, our business, financial condition, operating results, and cash flows could be materially adversely affected.

Global economic conditions and uncertainty could adversely affect our revenue, gross margin and expenses.

Our revenue and gross margin depend significantly on general economic conditions and the demand for programmable logic devices in markets in which we compete. Global economic weakness and constrained infrastructure spending have previously resulted, and may result in the future, in decreased revenue, gross margin, earnings or growth rates and problems with our ability to manage inventory levels and collect customer receivables. In addition, our relationships with our employees and suppliers could be adversely affected. We could experience such economic weakness and reduced spending due to various macroeconomic factors affecting spending and investment behavior, including periods of economic recession, conditions in the residential real estate and mortgage markets, access to credit, and the weakening or strengthening of the U.S. dollar relative to other world currencies. In addition, customer financial difficulties have previously resulted, and could result in the future, in increases in bad debt write-offs and additions to reserves in our receivables portfolio. We also have experienced, and may experience in the future, gross margin declines in certain products, reflecting the effect of items such as competitive pricing pressures, inventory write-downs, charges associated with the cancellation of planned production lines, and increases in component and manufacturing costs resulting from higher labor and material costs borne by our manufacturers and suppliers that, as a result of competitive pricing pressures or other factors, we are unable to pass on to our customers. Global economic downturns also may lead to restructuring actions and associated expenses. Uncertainty about future economic conditions makes it difficult for us to forecast operating results and to make decisions about future investments. Whenever adverse economic or end market conditions exist, there is likely to be an adverse effect on our operating results.

Our entire long-term marketable securities portfolio is invested in auction rate securities, a number of which have been the subject of failed auctions, which have adversely affected the liquidity of these securities. If auction rate securities continue to experience unsuccessful auctions, or if the credit rating of the auction rate security, auction rate security issuer, the third-party insurer of such investments, the issuers of the investments underlying the securities or credit default swaps, deteriorates, we may be required to adjust the carrying value of the auction rate security through impairment charges, and any of these events could have a materially detrimental effect on our liquidity and results of operations.

At September 27, 2008 and December 29, 2007, we held auction rate securities that were considered illiquid with a face value of \$39.2 million and \$44.9 million, respectively, and an estimated fair value of \$27.4 million and \$44.9 million, respectively. These auction rate securities with investment grades of AAA, AA or A, except for an auction rate security with a face value of \$2.0 million (estimated fair value of \$0.8 million) collateralized by consumer credit card debt, are collateralized by federally-insured student loans, corporate bonds, notes, commercial paper, or bank deposit notes. Long-term marketable securities with a face value of \$14.0 million (estimated fair value of \$8.4 million) are exposed to risks associated with the sale of credit default swaps, pursuant to which the assets

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underlying the auction rate securities are exposed to claims in the event of default of certain debt instruments owned by third parties. In addition, for auction rate securities with a face value of \$8.3 million (estimated fair value of \$4.2 million) held in Long-term marketable securities, Ambac Assurance Corporation (“AMBAC”, the issuer) can exercise a put option, which essentially replaces the auction rate security investment with preferred stock of AMBAC.

While the auctions for auction rate securities have historically provided a liquid market for these securities, due to liquidity issues in global credit and capital markets, auction rate securities held by us have experienced multiple failed auctions (a portion beginning in October 2007) as the amount of securities submitted for sale at the auctions has exceeded the amount of purchase orders. In addition, some of these securities have experienced downgrades, but continue to be considered investment grade by one or more rating agencies. These instruments are considered illiquid and have been reclassified as Long-term marketable securities on the Condensed Consolidated Balance Sheet. Due to the severity of the decline in fair value, the duration of the decline, and the downgrading of the credit ratings of some of the securities, the Company determined that an other-than-temporary decline in fair value had occurred, and recorded an impairment charge of \$1.4 million and \$11.8 million for the quarter and nine months ended September 27, 2008, respectively. If we were to liquidate our position in these securities, the amount realized could be materially different than the estimated fair value amounts at which we are carrying these securities and there could be a materially detrimental effect on our financial results.

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

We derive a majority of our revenue from export sales. Accordingly, if we experience a decline in export sales, our operating results could be adversely affected. Our export sales are subject to numerous risks, including:

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

Sales of our older products may decline faster than sales of our new products increase, which would result in reduced revenues and gross margins.

Our product development strategy is to aggressively introduce new products in order to grow our overall revenue. While we expect the strong growth of new product revenue to continue, there is no assurance that the rate of growth can be maintained, or that new product revenue will meet our expectations. In addition, currently the majority of our revenue is derived from sales of mainstream and mature products. Mature products are older products that generally are no longer designed by customers into end systems and are sold to support the mass production of customer end systems in which they have historically been designed. Consequently, sales of these products have a tendency to decline as customer end systems gradually reach the end of their life cycles. Mainstream products are more recently introduced products that may still be designed by customers into new systems. However, they are predominantly used in customer end systems that are in the mid-life stage of their life cycles. Consequently, sales of mainstream products can be volatile and are subject to overall economic, industry and customer specific inventory conditions. Sales of mainstream products may increase or decline in a given period depending on conditions.

We have limited ability to predict or to foresee changes or the pace of changes in sales by product classification. In recent periods, we have experienced increased rates of decline in sales of our mature products. Additionally, in the past we have also experienced periods of declines in sales of our mainstream products. If in any period, the overall sales of the combination of our mature and mainstream products decline and if sales of new products do not increase at a rate that is sufficient to counteract this decline, then our total revenues would decline. In addition, as mature products typically generate a higher gross margin than mainstream or new products generate, a faster than normal decline in sales of mature products could adversely impact our gross margins.

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

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

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

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

Lattice and Fujitsu have entered into agreements pursuant to which Fujitsu manufactures our current and future FPGA products on its 130 nanometer, 90 nanometer and 65 nanometer CMOS process technologies, as well as on 130 nanometer and 90 nanometer technologies with embedded flash memory that we have jointly developed with Fujitsu. Fujitsu is our sole source supplier of wafers for our newest FPGA products and our planned future FPGA products. The success of our next generation FPGA products is dependent on our ability to successfully partner with Fujitsu. If for any reason we are unsuccessful in our efforts to partner with Fujitsu in connection with these next generation FPGA products, our future revenue growth may be materially adversely affected.

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

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

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

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

We may experience a disruption of our business activities due to the transition to new management team.

We may experience disruption in our business activities as we transition to new executive management, and our relationships with employees, customers and suppliers could be adversely effected by these disruptions. In addition, our competitors may seek to use this transition and the related potential disruptions to gain a competitive advantage over us. Our future operating results depend substantially upon the continued service of our executive officers and key personnel and in significant part upon our ability to attract and retain qualified management personnel. Competition for qualified personnel is intense, and we cannot ensure success in attracting or retaining qualified personnel. There may be only a limited number of persons with the requisite skills to serve in these positions and it may be increasingly difficult for us to hire personnel over time. Our business, financial condition and results of operations could be materially adversely affected by the loss of any of our key employees, by the failure of any key employee to perform in his or her current position, or by our inability to attract and retain skilled employees. In addition, the transition to new executive officers has involved the development of a new cost structure, a refined product strategy and a new business model that better aligns operating costs with near-term revenue expectations to deliver improved operating results. Any changes to our business are subject to the risks that management may be diverted from ongoing business activities, we could incur significant costs and expenses to undertake changes, and that such changes may result in loss of key employees and customer relationships. The benefits from changes in the cost structure and product strategy may not materialize for a number of reasons, including the possibility that we may incur unanticipated costs, experience management turnover, or fail to gain market acceptance of a refined product strategy or be unable to execute the plan in a timely manner.

The potential impact of customer design-in activity on future revenue is inherently uncertain and could impact our ability to manage production or our ability to forecast sales.

We face uncertainties relating to the potential impact of customer design-in activity because it is unknown whether any particular customer design-in will ultimately result in sales of significant volume. After a specific customer design-in is obtained, many factors can impact the timing and amount of sales that are ultimately realized from the specific customer design-in. Changes in the competitive position of our technology, our customer's product competitiveness, our customer's product strategy, the financial position of our customer, and many other factors can all impact the timing and amount of sales ultimately realized from any specific customer design-in. As a result, we may not be able to accurately manage the production levels of our new products or accurately forecast the future sales of such products, and, thus, our operating results may be harmed.

Product quality problems could lead to reduced revenue, gross margins and net income.

We generally warrant our products for varying lengths of time against non-conformance to our specifications and certain other defects. Because our products, including hardware, software and intellectual property cores, are highly complex and increasingly incorporate advanced technology, our quality assurance programs may not detect all defects, whether manufacturing defects in individual products or systematic defects that could affect numerous shipments. Inability to detect a defect could result in increased engineering expenses necessary to remediate the defect and also result in increased costs due to inventory impairment charges. On occasion we have also repaired or replaced certain components and software or refunded the purchase price or license fee paid by our customers due to product defects. If there are material increases in product defects, the costs to remediate such defects, or the costs to resolve warranty claims compared with our historical experience, our revenue, gross margins, and net income may be adversely affected.

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

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

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

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

Further, our ability to predict end-user demand is limited. Typically, the majority of our revenue comes from "turns orders," which are orders placed and filled within the same quarter. By definition, turns orders are not captured in a backlog measurement at the beginning of a quarter. Accordingly, we cannot use backlog as a reliable measure of predicting revenue.

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

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

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

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

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

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

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

- a high degree of technical skill;
- state-of-the-art equipment;
- the availability of certain basic materials and supplies, such as chemicals, gases, polysilicon, silicon wafers and ultra-pure metals;
- the absence of defects in production wafers;
- the elimination of minute impurities and errors in each step of the fabrication process; and
- effective cooperation between the wafer supplier and us.

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

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

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

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

We do not assemble our finished products or perform all testing of our products. Currently, our finished products are assembled and tested by ASE in Malaysia, Amkor in the Philippines and South Korea, Fujitsu in Japan, AIT in Indonesia, UTAC in Singapore and other independent contractors in Asia. If any of our current or future assembly or test contractors significantly interrupts or reduces our supply of assembled and tested devices, our operating results could be harmed.

In the past, we have experienced delays in obtaining assembled and tested products and in securing assembly and test capacity commitments from our suppliers. At present, we anticipate that our assembly and test capacity commitments are adequate. However, these existing commitments may not be sufficient for us to satisfy customer demand in future periods. Additionally, notwithstanding our assembly and test capacity commitments we may still have difficulty in obtaining deliveries of finished products consistent with the capacity commitments. We negotiate assembly and test prices and capacity commitments from our contractors on a periodic basis. If any of our assembly or test contractors were to reduce its capacity commitment or increase its prices, and we cannot find alternative sources, our operating results could be harmed.

Many other factors that could disrupt our supply of finished products are beyond our control. Because worldwide capacity for assembly and testing of semiconductor products is limited and inelastic, we could be harmed by significant industry-wide increases in overall demand or interruptions in supply. The assembly of complex packages requires a consistent supply of a variety of raw materials such as substrates, leadframes, and mold compound. The worldwide manufacturing capacity for these materials is also limited and inelastic. A significant industry-wide increase in demand, or interruptions in the supply of these materials to our assembly or test contractors, could harm our operating results. Additionally, a future disruption of any of our assembly or test contractors' operations as a result of a fire, earthquake, act of terrorism, political unrest, governmental uncertainty, war, or other natural disaster or catastrophic event could disrupt our supply of assembled and tested devices and could harm our operating results.

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In addition, our quarterly revenue levels may be affected to a significant extent by our ability to match inventory and current production mix with the product mix required to fulfill orders. The large number of individual parts we sell and the large number of customers for our products, combined with limitations on our and our customer's ability to forecast orders accurately and our relatively lengthy manufacturing cycles, may make it difficult to achieve a match of inventory on hand, production units, and shippable orders sufficient to realize quarterly or annual revenue projections.

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

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

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

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

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

Our stock price may continue to experience large fluctuations.

Historically, the price of our common stock has at times experienced rapid and severe price fluctuations that have left investors little time to react. The price of our common stock may continue to fluctuate greatly in the future due to a variety of company specific factors, including:

- quarter-to-quarter variations in our operating results;
- shortfalls in revenue or earnings from levels expected by securities analysts and investors;
- announcements of technological innovations or new products by other companies; and
- any developments that materially adversely impact investors' perceptions of our business prospects.

Our stock price has ranged from a low of \$2.11 per share to a high of \$3.35 per share for the quarter ended September 27, 2008.

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

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

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

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

- general economic conditions in the countries where we sell our products;
- conditions within the end markets into which we sell our products;
- the cyclical nature of demand for our customers' products;
- excessive inventory accumulation by our end customers;

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- the timing of our and our competitors' new product introductions;
- product obsolescence;
- the scheduling, rescheduling and cancellation of large orders by our customers;
- the willingness and ability of our customers and distributors to make payment to us in a timely manner;
- our ability to develop new process technologies and achieve volume production at wafer fabrication facilities;
- changes in manufacturing yields including delays in achieving target yields on new products;
- adverse movements in exchange rates, interest rates or tax rates; and
- the availability of adequate supply commitments from our wafer foundries and assembly and test subcontractors.

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

All of our major silicon wafer suppliers operate fabrication facilities located in Asia. Additionally, our finished silicon wafers are assembled and tested by independent contractors located in China, Indonesia, Japan, Malaysia, the Philippines and South Korea. Economic, financial, social and political conditions in Asia have historically been volatile. Financial difficulties, the effects of currency fluctuation, governmental actions or restrictions, prolonged work stoppages, political unrest, war, natural disaster, disease or any other difficulties experienced by our suppliers may disrupt our supply and could harm our operating results.

We may not be able to fund future foundry partner investments and meet other capital needs when required or on favorable terms.

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

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

The semiconductor industry is intensely competitive and many of our direct and indirect competitors have substantially greater financial, technological, manufacturing, marketing and sales resources. The current level of competition in the programmable logic market is high and may increase in the future. We currently compete directly with companies that have licensed our technology or have developed similar products. We also compete indirectly with numerous semiconductor companies that offer products based on alternative technical solutions. These direct and indirect competitors are established multinational semiconductor companies as well as emerging companies. If we are unable to compete successfully in this environment, our future results will be adversely affected.

We may have failed to adequately insure against certain risks, and, as a result, our financial condition and results may be adversely affected.

We carry insurance customary for companies in our industry, including, but not limited to, liability, property and casualty, worker's compensation and business interruption insurance. We also self-insure our employees for basic medical expenses, subject to a true insurance stop loss for catastrophic illness. In addition, we have insurance contracts that provide director and officer liability coverage for our directors and officers. Other than the specific areas mentioned above, we are self-insured with respect to most other risks and exposures, and the insurance we carry in many cases is subject to a significant policy deductible or other limitation before coverage applies. Based on management's assessment and judgment, we have determined that it is more cost effective to self-insure against certain risks than to incur the insurance premium costs. The risks and exposures for which we self-insure include, but are not limited to, natural disasters, product defects, political risk, theft, patent infringement and some employment practice matters. Should there be a catastrophic loss due to an uninsured event such as an earthquake or a loss due to adverse occurrences in any area in which we are self-insured, our financial condition, results of operations and liquidity may be adversely affected.

While we believe that we currently have adequate internal controls over financial reporting, we are exposed to risks from legislation requiring companies to evaluate those internal controls.

Section 404 of the Sarbanes-Oxley Act of 2002 requires our management to report on, and our independent auditors to attest to, the effectiveness of our internal controls over financial reporting. We have an ongoing program to perform the system and process evaluation and testing necessary to comply with these requirements. We have and will continue to incur significant expenses and devote management resources to Section 404 compliance on an ongoing basis. In the event that our chief executive officer, chief financial officer or independent registered public accounting firm determine in the future that our internal controls over financial reporting are not effective as defined under Section 404, investor perceptions may be adversely affected and could cause a decline in the market price of our stock.

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

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

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

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

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

We face risks related to litigation.

We are exposed to certain asserted and unasserted potential claims, including the pending patent litigation brought against us by Lizy K. John. There can be no assurance that, with respect to potential claims made against us, we could resolve such claims under terms and conditions that would not have a material adverse effect on our business, our liquidity or our financial results. We have been and may in the future be subject to various other legal proceedings, including claims that involve possible infringement of patent and other intellectual property rights of third parties. It is inherently difficult to assess the outcome of litigation matters, and there can be no assurance that we will prevail in any litigation. Any such litigation could result in a substantial diversion of our efforts and the use of substantial management and financial resources, which by itself could have a material adverse effect on our financial condition and operating results. Further, an adverse determination in any such litigation could result in a material adverse impact on our financial position and the results of operations for the period in which the effect of an unfavorable final outcome becomes probable and reasonably estimable.

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ITEM 6. EXHIBITS

Exhibit Number	Description
3.1	The Company's Restated Certificate of Incorporation filed February 24, 2004 (Incorporated by reference to Exhibit 3.1 filed with the Company's Annual Report on Form 10-K for the year ended January 3, 2004).
3.2	The Company's Bylaws, as amended and restated as of January 31, 2006 (Incorporated by reference to Exhibit 99.1 filed with the Company's Current Report on Form 8-K filed February 3, 2006).
4.4	Indenture, dated as of June 20, 2003, between the Company and U.S. Bank National Association (Incorporated by reference to Exhibit 4.1 filed with the Company's Registration Statement on Form S-3 on August 13, 2003).
4.5	Form of Note for the Company's Zero Coupon Convertible Subordinated Notes (Incorporated by reference to Exhibit 4.2 filed with the Company's Registration Statement on Form S-3 on August 13, 2003).
10.23	Advance Production Payment Agreement dated March 17, 1997 among Lattice Semiconductor Corporation and Seiko Epson Corporation and S MOS Systems, Inc. (Incorporated by reference to Exhibit 10.23 filed with the Company's Annual Report on Form 10-K for the fiscal year ended January 1, 2005)(1).
10.24*	Lattice Semiconductor Corporation 1996 Stock Incentive Plan, as amended, and Related Form of Option Agreement (Incorporated by reference to Exhibits (d)(1) and (d)(2) to the Company's Schedule TO filed on February 13, 2003).
10.33*	2001 Outside Directors' Stock Option Plan, as amended and restated effective May 1, 2007 (Incorporated by reference to Appendix A filed with the Company's 2007 Definitive Proxy Statement filed on Schedule 14A on April 5, 2007).
10.34*	2001 Stock Plan, as amended, and related Form of Option Agreement (Incorporated by reference to Exhibits (d)(3) and (d)(4) to the Company's Schedule TO filed on February 13, 2003).
10.35	Intellectual Property Agreement by and between Agere Systems Inc. and Agere Systems Guardian Corporation and Lattice Semiconductor Corporation as Buyer, dated January 18, 2002 (Incorporated by reference to Exhibit 10.35 filed with the Company's Annual Report on Form 10-K for the year ended December 29, 2001).
10.37*	Lattice Semiconductor Corporation Executive Deferred Compensation Plan, as amended and restated effective as of August 11, 1997 (Incorporated by reference to Exhibit 99.3 filed with the Company's Registration Statement on Form S-3, as amended, dated October 17, 2002).
10.38*	Amendment No. 1, to the Lattice Semiconductor Corporation Executive Deferred Compensation Plan, as amended, dated November 19, 1999 (Incorporated by reference to Exhibit 99.4 filed with the Company's Registration Statement on Form S-3, as amended, dated October 17, 2002).
10.39	Registration Rights Agreement, dated as of June 20, 2003, between the Company and the initial purchaser named therein (Incorporated by reference to Exhibit 4.3 filed with the Company's Registration Statement on Form S-3 on August 13, 2003).
10.41*	Form of Indemnification Agreement executed by each director and executive officer of the Company and certain other officers and employees of the Company and its subsidiaries (Incorporated by reference to Exhibit 10.41 filed with the Company's Annual Report on Form 10-K for the year ended January 3, 2004).
10.42	Amendment dated March 25, 2004 to Advance Production Payment Agreement dated March 17, 1997, as amended, among Lattice Semiconductor Corporation and Seiko Epson Corporation and S MOS Systems, Inc. (Incorporated by reference to Exhibit 10.42 filed with the Company's Quarterly Report on Form 10-Q for the quarter ended April 3, 2004)(1).
10.43	Advance Payment and Purchase Agreement dated September 10, 2004 between Lattice Semiconductor Corporation and Fujitsu Limited (Incorporated by reference to Exhibit 10.1 filed with the Company's Quarterly Report on Form 10-Q for the quarter ended October 2, 2004)(1).
10.44*	Employment Agreement between Lattice Semiconductor Corporation and Stephen A. Skaggs dated August 9, 2005 (Incorporated by reference to Exhibit 99.1 filed with the Company's Current Report on Form 8-K filed on August 12, 2005).
10.45*	Compensation Arrangement between Lattice Semiconductor Corporation and Patrick S. Jones, Chairman of the Board of Directors (Incorporated by reference to Exhibit 99.2 filed with the Company's Current Report on Form 8-K filed on August 12, 2005).

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<u>Exhibit Number</u>	<u>Description</u>
10.46*	Employment Agreement between Lattice Semiconductor Corporation and Jan Johannessen dated November 1, 2005 (Incorporated by reference to Exhibit 10.1 filed with the Company's Quarterly Report on Form 10-Q filed on November 4, 2005).
10.47*	Employment Agreement between Lattice Semiconductor Corporation and Martin R. Baker dated November 1, 2005 (Incorporated by reference to Exhibit 10.2 filed with the Company's Quarterly Report on Form 10-Q filed on November 4, 2005).
10.48*	Employment Agreement between Lattice Semiconductor Corporation and Stephen M. Donovan dated November 1, 2005 (Incorporated by reference to Exhibit 10.3 filed with the Company's Quarterly Report on Form 10-Q filed on November 4, 2005).
10.50*	Compensation Arrangement between Lattice Semiconductor Corporation and Chairpersons for Committees of the Board of Directors (Incorporated by reference to Exhibit 99.1 filed with the Company's Current Report on Form 8-K filed on December 12, 2005).
10.51*	Form of Amendment to Stock Option Agreements for 1996 Stock Incentive Plan, as amended, and 2001 Stock Plan, as amended (Incorporated by reference to Exhibit 99.3 filed with the Company's Current Report on Form 8-K filed on December 12, 2005).
10.52*	2006 Executive Bonus Plan (Incorporated by reference to Exhibit 99.4 filed with the Company's Current Report on Form 8-K filed on December 12, 2005).
10.53	Addendum dated March 22, 2006 to the Advance Payment and Purchase Agreement dated September 10, 2004 between Lattice Semiconductor Corporation and Fujitsu Limited (Incorporated by reference to Exhibit 10.53 filed with the Company's Quarterly Report on Form 10-Q filed on November 7, 2006).
10.54	Addendum No. 2 dated effective October 1, 2006 to the Advance Payment and Purchase Agreement dated September 10, 2004 between Lattice Semiconductor Corporation and Fujitsu Limited (Incorporated by reference to Exhibit 10.54 filed with the Company's Quarterly Report on Form 10-Q filed on November 7, 2006)(1).
10.55*	2007 Executive Variable Compensation Plan, as amended (Incorporated by reference to Exhibit 99.1 filed with the Company's Current Report on Form 8-K filed on December 7, 2006, as amended as described in the Company's Current Report on Form 8-K filed on February 8, 2007).
10.56*	Form of Notice of Grant of Restricted Stock Units to Executive Officer (Incorporated by reference to Exhibit 99.1 filed with the Company's Current Report on Form 8-K filed on February 8, 2007).
10.57*	2008 Executive Variable Compensation Plan, as amended (Incorporated by reference to Exhibit 99.1 filed with the Company's Current Report on Form 8-K filed on December 7, 2007).
10.58*	Letter Agreement between Lattice Semiconductor Corporation and Stephen A. Skaggs dated January 31, 2008 (Incorporated by reference to Exhibit 10.58 filed with the Company's Annual Report on Form 10-K for the year ended December 29, 2007).
10.59	Employment Agreement between Lattice Semiconductor Corporation and Bruno Guilmar dated May 14, 2008 (Incorporated by reference to Exhibit 99.1 filed with the Company's Current Report on Form 8-K filed on June 16, 2008).
10.60	Employment Agreement between Lattice Semiconductor Corporation and Byron W. Milstead dated May 14, 2008 (Incorporated by reference to Exhibit 10.60 filed with the Company's Current Report on Form 10-Q filed on August 6, 2008).
10.61	Form of Inducement Stock Option Agreement
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended.
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended.
32.1	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
(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 the Annual Report on Form 10-K pursuant to Item 15(b) thereof.

SIGNATURES

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

LATTICE SEMICONDUCTOR CORPORATION
(Registrant)

/s/ ROBERT W. O'BRIEN, JR.

Robert W. O'Brien, Jr.

Interim Chief Financial Officer

*(Duly Authorized Officer and Principal Financial
and Accounting Officer)*

Date: November 5, 2008

LATTICE SEMICONDUCTOR CORPORATION

[NAME] INDUCEMENT

STOCK OPTION AGREEMENT

I. NOTICE OF STOCK OPTION GRANT

[NAME]

[ADDRESS]

You have been granted a Nonstatutory Stock Option to purchase Common Stock of the Company, subject to the terms and conditions of this Agreement, as follows:

Grant Number

Date of Grant

Vesting Commencement Date

Exercise Price per Share \$

Total Number of Shares Granted

Total Exercise Price \$

Term/Expiration Date:

Vesting Schedule:

This Option shall vest and may be exercised, in whole or in part, in accordance with the following schedule:

Twenty-five percent (25%) of the Shares subject to this Option shall vest twelve (12) months from the Vesting Commencement Date, subject to the Optionee continuing to be a Service Provider through such dates. The remaining Shares will be scheduled to vest at 6.25% of the Shares subject to the Option on the last day of each three (3) month period thereafter, subject to the Optionee continuing to be a Service Provider, provided that vesting is suspended for the number of days by which a leave exceeds a full pay period.

Termination Period:

Vested Shares of this Option may be exercised for three (3) months after Optionee ceases to be a Service Provider, or for such longer period and to such extent as may be applicable upon the death or Disability of Optionee as provided in Section E of Part II of this Agreement, but in no event longer than the Term/Expiration Date as provided above.

II. AGREEMENT

A. Definitions. As used herein, the following definitions shall apply.

(a) "Agreement" means this Inducement Stock Option Agreement between the Company and Optionee evidencing the terms and conditions of this Option.

(b) "Administrator" means the Compensation Committee of the Board. The Administrator has full authority and discretion to administer this Option, including but not limited to the authority to: (i) modify or amend the Option (subject to Section I of this Agreement), including, but not limited to, the discretionary authority to extend the exercise period of the Option, (ii) authorize any person to execute on behalf of the Company any instrument required to effect the grant or amendment of the Option previously granted or amended by the Administrator, (iii) provide for the transferability of the Option, and (iv) construe and interpret the terms of the Option. All decisions, determinations and interpretations of the Administrator shall be final and binding on the Optionee.

(c) "Applicable Laws" means the requirements relating to the administration of stock options under state corporate laws of the United States, U.S. federal and state securities laws, the Code, any other applicable federal or state law, any stock exchange or quotation system on which the Common Stock is listed or quoted and the applicable laws of any foreign country or jurisdiction that may apply to this Option.

(d) "Board" means the Board of Directors of the Company.

(e) "Code" means the Internal Revenue Code of 1986, as amended.

(f) "Common Stock" means the common stock of the Company.

(g) "Company" means Lattice Semiconductor Corporation, a Delaware corporation.

(h) "Consultant" means any person, including an advisor, engaged by the Company or a Parent or Subsidiary to render services to such entity.

(i) "Director" means a member of the Board.

(j) "Disability" means total and permanent disability as defined in Section 22(e)(3) of the Code.

(k) "Employee" means any person, including Directors, employed by the Company or any Parent or Subsidiary of the Company. An Employee shall not cease to be such in the case of (i) any leave of absence approved by the Company or (ii) transfers between locations of the Company or between the Company, its Parent, any Subsidiary, or any successor. Neither service as a Director nor payment of a director's fee by the Company shall be sufficient to constitute "employment" by the Company.

(l) "Exchange Act" means the Securities Exchange Act of 1934, as amended.

(m) "Fair Market Value" means, as of any date, the value of Common Stock determined as follows:

(i) If the Common Stock is listed on any established stock exchange or a national market system, including without limitation the Nasdaq Global Market, the Nasdaq Global Select Market or the Nasdaq Capital Market, its Fair Market Value shall be the closing sales price for such stock (or the closing bid, if no sales were reported) as quoted on such exchange or system on the day of determination, or, if the day of determination is not a market trading day, on the first market trading day following the day of determination, as reported in *The Wall Street Journal* or such other source as the Administrator deems reliable;

(ii) If the Common Stock is regularly quoted by a recognized securities dealer but selling prices are not reported, the Fair Market Value of a Share of Common Stock shall be the mean between the high bid and low asked prices for the Common Stock on the day of determination, or, if the day of determination is not a market trading day, on the first market trading day following the day of determination, as reported in *The Wall Street Journal* or such other source as the Administrator deems reliable; or

(iii) In the absence of an established market for the Common Stock, the Fair Market Value shall be determined in good faith by the Administrator.

(n) "Nonstatutory Stock Option" means an Option not intended to qualify as an incentive stock option within the meaning of Section 422 of the Code and the regulations promulgated thereunder.

(o) "Notice of Grant" means a written notice, in Part I of this Agreement, evidencing the terms and conditions of this Option. The Notice of Grant is part of the Agreement.

(p) "Option" means this stock option.

(q) "Optioned Stock" means the Common Stock subject to this Option.

(r) "Optionee" means the person named in the Notice of Grant or such person's successor.

(s) "Parent" means a "parent corporation," whether now or hereafter existing, as defined in Section 424(e) of the Code.

(t) "Service Provider" means an Employee or Consultant.

(u) "Share" means a share of the Common Stock, as adjusted in accordance with Section H of this Agreement.

(v) "Subsidiary" means a "subsidiary corporation", whether now or hereafter existing, as defined in Section 424(f) of the Code.

B. Grant of Option.

The Company hereby grants to the Optionee named in the Notice of Grant the Option to purchase the number of Shares, as set forth in the Notice of Grant, at the exercise price per share set forth in the Notice of Grant (the "Exercise Price"), subject to the terms and conditions of this Agreement.

C. Exercise of Option.

(a) Right to Exercise. This Option is exercisable during its term in accordance with the Vesting Schedule set out in the Notice of Grant and the applicable provisions of this Agreement. Consistent with Applicable Law and unless the Administrator provides otherwise, vesting of Options granted hereunder shall be suspended during any leave of absence in excess of one pay period.

(b) Method of Exercise. This Option is exercisable by delivery of an exercise notice, in the form attached as Exhibit A (the "Exercise Notice") or in a manner and pursuant to such procedures as the Administrator may determine, which shall state the election to exercise the Option, the number of Shares in respect of which the Option is being exercised (the "Exercised Shares"), and such other representations and agreements as may be required by the Company. The Exercise Notice shall be completed by the Optionee and delivered to the Stock Administrator of the Company. The Exercise Notice shall be accompanied by payment of the aggregate Exercise Price as to all Exercised Shares, together with any applicable tax withholding. This Option shall be deemed to be exercised upon receipt by the Company of such fully executed Exercise Notice accompanied by such aggregate Exercise Price and applicable tax withholding.

(c) Legal Compliance. No Shares shall be issued pursuant to the exercise of this Option unless such issuance and exercise complies with Applicable Laws. Assuming such compliance, for income tax purposes the Exercised Shares shall be considered transferred to the Optionee on the date the Option is exercised with respect to such Exercised Shares.

D. Method of Payment.

Payment of the aggregate Exercise Price shall be by any of the following, or a combination thereof, at the election of the Optionee:

1. cash; or
2. check; or
3. consideration received by the Company under a cashless exercise program implemented by the Company; or
4. surrender of other Shares which (i) in the case of Shares acquired upon exercise of an option, have been owned by the Optionee for more than six (6) months on the date of surrender, and (ii) have a Fair Market Value on the date of surrender equal to the aggregate Exercise Price of the Exercised Shares; or
5. to the extent permitted by the Administrator, delivery of a properly executed Exercise Notice together with such other documentation as the Administrator and the broker, if applicable, shall require to effect an exercise of the Option and delivery to the Company of the sale proceeds required to pay the Exercise Price.

E. Termination of Employment.

(a) In the event the employment of the Optionee by the Company or by any Parent or Subsidiary of the Company is terminated by retirement or for any reason, voluntarily or involuntarily, with or without cause, other than in the circumstances specified in subsection (b) below, the Option held by the Optionee may be exercised at any time prior to its expiration date or the expiration of three (3) months after the date of such termination of employment, whichever is the shorter period, but only if and to the extent the Optionee was entitled to exercise the Option on the date of such termination (i.e. no vesting occurs after termination).

(b) In the event the Optionee's employment by the Company or by any Parent or Subsidiary of the Company is terminated because of death or Disability, the Option may be fully exercised with respect to all remaining unexercised Shares, including those shares that would otherwise have been unvested on the date of death or Disability, at any time prior to its expiration date or the expiration of one (1) year after the date of such termination, whichever is the shorter period. If the Optionee's employment is terminated by death, the Option shall be exercisable only by the person or persons to whom the Optionee's rights under the Option shall pass by the Optionee's will or by the laws of descent and distribution of the state or country of the Optionee's domicile at the time of death.

(c) In the event of the death or termination of employment of the Optionee, to the extent the Option shall not have been exercised within the limited periods provided above, all further rights to purchase Shares pursuant to the Option shall cease and terminate at the expiration of such periods.

F. Transferability of Option.

(a) Option Generally Non-Transferable. During the lifetime of the Optionee, an Option shall be exercisable only by the Optionee or the Optionee's guardian, legal representative or permitted transferees. Except as specified below, no Option shall be assignable or transferable by the Optionee except by will or by the laws of descent and distribution. The terms of this Agreement shall be binding upon the transferees, purchasers, executors, administrators, heirs, successors and assigns of the Optionee.

(b) Limited Transferability of Option. At the sole discretion of the Administrator or its appointee, and subject to such terms and conditions as the Administrator or its appointee deems advisable, the Administrator or its appointee may allow, by means of a writing to the Optionee, for all or part of this Option, to the extent such shares of this Option are fully vested, to be assigned or transferred, including by means of sale, during the Optionee's lifetime to a member of the Optionee's immediate family or to a trust, LLC or partnership for the benefit of any one or more members of the Optionee's immediate family. "Immediate family" as used herein means the spouse, lineal descendants, father, mother, brothers and sisters of the Optionee. In such case, the transferee shall receive and hold the Option subject to the provision of this Agreement, and there shall be no further assignment or transfer of the Option.

G. Term of Option.

This Option may be exercised only within the term set out in the Notice of Grant, and may be exercised during such term only in accordance with the terms of this Agreement.

H. Adjustments; Dissolution or Liquidation; Merger or Change in Control.

1. Adjustments. Subject to any required action by the stockholders of the Company, the number of shares of Common Stock covered by the Option, as well as the price per share of Common Stock covered by the Option, shall be proportionately adjusted for any increase or decrease in the number of issued shares of Common Stock resulting from a reorganization, merger, consolidation, plan of exchange, recapitalization, stock split, reverse stock split, stock dividend, combination or reclassification of the Common Stock, or any other increase or decrease in the number of issued shares of Common Stock effected without receipt of consideration by the Company; provided, however, that conversion of any convertible securities of the Company shall not be deemed to have been "effected without receipt of consideration." Such adjustment shall be made by the Administrator, whose determination in that respect shall be final, binding and conclusive. Except as expressly provided herein, no issuance by the Company of shares of stock of any class, or securities convertible into shares of stock of any class, shall affect, and no adjustment by reason thereof shall be made with respect to, the number or price of shares of Common Stock subject to the Option.

2. Dissolution or Liquidation. In the event of the proposed dissolution or liquidation of the Company, the Administrator shall notify the Optionee as soon as practicable prior to the effective date of such proposed transaction. The Administrator in its discretion may provide for the Optionee to have the right to exercise his or her Option until thirty (30) days prior to such transaction as to all of the Optioned Stock covered thereby, including Shares as to which the Option would not otherwise be exercisable. To the extent it has not been previously exercised, the Option will terminate immediately prior to the consummation of such proposed action.

3. Merger or Change in Control. In the event of a merger of the Company with or into another corporation, or the sale of substantially all of the assets of the Company, the Option shall be assumed or an equivalent option or right substituted by the successor corporation or a Parent or Subsidiary of the successor corporation. In the event that the successor corporation refuses to assume or substitute for the Option, the Optionee shall fully vest in and have the right to exercise the Option as to all of the Optioned Stock, including Shares as to which it would not otherwise be vested or exercisable. If the Option becomes fully vested and exercisable in lieu of assumption or substitution in the event of a merger or sale of assets, the Administrator shall notify the Optionee in writing or electronically that the Option shall be fully vested and exercisable for a period of thirty (30) days from the date of such notice, and the Option shall terminate upon the expiration of such period. For the purposes of this paragraph, the Option shall be considered assumed if, following the merger or sale of assets, the option or right confers the right to purchase or receive, for each Share of Optioned Stock subject to the Option immediately prior to the merger or sale of assets, the consideration (whether stock, cash, or other securities or property) received in the merger or sale of assets by holders of Common Stock for each Share held on the effective date of the transaction (and if holders were offered a choice of consideration, the type of consideration chosen by the holders of a majority of the outstanding Shares); provided, however, that if such consideration received in the merger or sale of assets is not solely common stock of the successor corporation or its Parent, the Administrator may, with the consent of the successor corporation, provide for the consideration to be received upon the exercise of the Option, for each Share of Optioned Stock subject to the Option, to be solely common stock of the successor corporation or its Parent equal in fair market value to the per share consideration received by holders of Common Stock in the merger or sale of assets.

I. Entire Agreement; Governing Law.

This Agreement constitute the entire agreement of the parties with respect to the subject matter hereof and supersede in their entirety all prior undertakings and agreements of the Company and Optionee with respect to the subject matter hereof, and may not be modified adversely to the Optionee's interest except by means of a writing signed by the Company and Optionee. This agreement is governed by the internal substantive laws, but not the choice of law rules, of Oregon.

J. Notices.

Any notice to be given to the Company hereunder shall be in writing and shall be addressed to the Company at its then current principal executive office or to such other address as the Company may hereafter designate to the Optionee by notice as provided in this Section. Any notice to be given to the Optionee hereunder shall be addressed to the Optionee at the address set forth beneath his or her signature hereto, or at such other address as the Optionee may hereafter designate to the Company by notice as provided herein. A notice shall be deemed to have been duly given when personally delivered or mailed by registered or certified mail to the party entitled to receive it.

K. Withholding Taxes.

Optionee agrees to make appropriate arrangements with the Company (or the Parent or Subsidiary employing or retaining Optionee) for the satisfaction of all Federal, state, and local income and employment tax withholding requirements applicable to the Option exercise. Optionee acknowledges and agrees that the Company may refuse to honor the exercise and refuse to deliver Shares if such withholding amounts are not delivered at the time of exercise.

L. NO GUARANTEE OF CONTINUED SERVICE.

OPTIONEE ACKNOWLEDGES AND AGREES THAT THE VESTING OF SHARES PURSUANT TO THE VESTING SCHEDULE HEREOF IS EARNED ONLY BY CONTINUING AS A SERVICE PROVIDER AT THE WILL OF THE COMPANY (AND NOT THROUGH THE ACT OF BEING HIRED, BEING GRANTED AN OPTION OR PURCHASING SHARES HEREUNDER). OPTIONEE FURTHER ACKNOWLEDGES AND AGREES THAT THIS AGREEMENT, THE TRANSACTIONS CONTEMPLATED HEREUNDER AND THE VESTING SCHEDULE SET FORTH HEREIN DO NOT CONSTITUTE AN EXPRESS OR IMPLIED PROMISE OF CONTINUED ENGAGEMENT AS A SERVICE PROVIDER FOR THE VESTING PERIOD, FOR ANY PERIOD, OR AT ALL, AND SHALL NOT INTERFERE WITH OPTIONEE'S RIGHT OR THE COMPANY'S RIGHT TO TERMINATE OPTIONEE'S RELATIONSHIP AS A SERVICE PROVIDER AT ANY TIME, WITH OR WITHOUT CAUSE.

By your signature and the signature of the Company's representative below, you and the Company agree that this Option is granted under and governed by the terms and conditions of this Agreement. Optionee has reviewed this Agreement in their entirety, has had an opportunity to obtain the advice of counsel prior to executing this Agreement and fully understands all provisions of the Agreement. Optionee hereby agrees to accept as binding, conclusive and final all decisions or interpretations of the Administrator upon any questions relating to the Agreement. Optionee further agrees to notify the Company upon any change in the residence address indicated below.

OPTIONEE:

LATTICE SEMICONDUCTOR CORPORATION

Signature

By

Print Name

Title

Residence Address

EXHIBIT A
LATTICE SEMICONDUCTOR CORPORATION
EXERCISE NOTICE

Lattice Semiconductor Corporation
5555 NE Moore Court
Hillsboro, OR 97124

Attention: Stock Administrator

1. Exercise of Option. Effective as of today, _____, 20__, the undersigned (“Purchaser”) hereby elects to purchase _____ shares (the “Shares”) of the Common Stock of Lattice Semiconductor Corporation (the “Company”) under and pursuant to the Inducement Stock Option Agreement dated [DATE] (the “Agreement”).

2. Delivery of Payment. Purchaser herewith delivers to the Company the full purchase price for the Shares together with any required withholding taxes to be paid in connection with the exercise of the Option.

3. Representations of Purchaser. Purchaser acknowledges that Purchaser has received, read and understood the Agreement and agrees to abide by and be bound by its terms and conditions.

4. Rights as Shareholder. Until the issuance (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company) of the Shares, no right to vote or receive dividends or any other rights as a stockholder shall exist with respect to the Shares subject to the Option, notwithstanding the exercise of the Option. The Shares so acquired shall be issued to the Purchaser as soon as practicable after exercise of the Option. No adjustment will be made for a dividend or other right for which the record date is prior to the date of issuance, except as provided in Section H of the Agreement.

5. Tax Consultation. Purchaser understands that Purchaser may suffer adverse tax consequences as a result of Purchaser’s purchase or disposition of the Shares. Purchaser represents that Purchaser has consulted with any tax consultants Purchaser deems advisable in connection with the purchase or disposition of the Shares and that Purchaser is not relying on the Company for any tax advice.

6. Successors and Assigns. The Company may assign any of its rights under this Exercise Notice to single or multiple assignees, and this Exercise Notice shall inure to the benefit of the successors and assigns of the Company. Subject to the restrictions on transfer herein set forth, this Exercise Notice shall be binding upon Purchaser and his or her heirs, executors, administrators, successors and assigns.

7. Interpretation. Any dispute regarding the interpretation of this Exercise Notice shall be submitted by Purchaser or by the Company forthwith to the Board, which shall review such dispute at its next regular meeting. The resolution of such a dispute by the Board shall be final and binding on all parties.

8. Entire Agreement; Governing Law. The Agreement is incorporated herein by reference together with any documents incorporated by reference therein. This Agreement, together with the Agreement constitute the entire agreement of the parties with respect to the subject matter hereof and supersede in their entirety all prior undertakings and agreements of the Company and Purchaser with respect to the subject matter hereof, and may not be modified adversely to the Purchaser's interest except by means of a writing signed by the Company and Purchaser. This agreement is governed by the internal substantive laws, but not the choice of law rules, of [Oregon].

Submitted by:

Accepted by:

OPTIONEE

LATTICE SEMICONDUCTOR CORPORATION

Signature

Print Name

Address

Date Received

CERTIFICATION

I, Bruno Guilmart, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Lattice Semiconductor Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 5, 2008

/s/ BRUNO GUILMART

Bruno Guilmart

President and Chief Executive Officer

CERTIFICATION

I, Robert W. O'Brien, Jr., certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Lattice Semiconductor Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 5, 2008

/s/ ROBERT W. O'BRIEN, JR.

Robert W. O'Brien, Jr.

Interim Chief Financial Officer

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

In connection with the Quarterly Report of Lattice Semiconductor Corporation (the "Company") on Form 10-Q for the quarter ended September 27, 2008 (the "Report"), I, Bruno Guilmart, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

A signed original of this written statement has been provided to the Company and will be retained by the Company and furnished to the SEC or its staff upon request.

/s/ BRUNO GUILMART

Bruno Guilmart

President and Chief Executive Officer

Date: November 5, 2008

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

In connection with the Quarterly Report of Lattice Semiconductor Corporation (the "Company") on Form 10-Q for the quarter ended September 27, 2008 (the "Report"), I, Robert W. O'Brien, Jr., Interim Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

A signed original of this written statement has been provided to the Company and will be retained by the Company and furnished to the SEC or its staff upon request.

/s/ ROBERT W. O'BRIEN, JR.

Robert W. O'Brien, Jr.

Interim Chief Financial Officer

Date: November 5, 2008