

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 28, 1996

OR

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

For the transition period from _____ to _____

Commission file number 0 - 18032

LATTICE SEMICONDUCTOR CORPORATION

(Exact name of Registrant as specified in its charter)

State of Delaware 93-0835214

(State or other jurisdiction (I.R.S. Employer
of incorporation or organization) Identification No.)

5555 N.E. Moore Court, Hillsboro, Oregon 97124-6421

(Address of principal executive offices) (Zip Code)

(503) 681-0118

(Registrant's telephone number, including area code)

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

At September 28, 1996 there were 22,354,569 shares of the Registrant's common
stock, \$.01 par value, outstanding.

LATTICE SEMICONDUCTOR CORPORATION

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

LATTICE SEMICONDUCTOR CORPORATION

CONSOLIDATED STATEMENT OF OPERATIONS
(In Thousands, Except per Share Data)
(Unaudited)

	Three Months Ended		Six Months Ended	
	Sept. 28, 1996	Sept. 30, 1995	Sept. 28, 1996	Sept. 30, 1995
Revenue	\$ 48,638	\$ 48,608	\$ 96,806	\$ 93,621
Costs and expenses:				
Cost of products sold	19,995	20,190	39,833	38,959
Research and development	6,888	6,690	13,642	13,073
Selling, general and administrative	8,194	7,716	16,091	15,087
Total costs and expenses	35,077	34,596	69,566	67,119
Income from operations	13,561	14,012	27,240	26,502
Other income, net	2,168	917	4,198	1,932
Income before provision for income taxes	15,729	14,929	31,438	28,434
Provision for income taxes	5,269	5,151	10,530	9,810
Net income	\$ 10,460	\$ 9,778	\$ 20,908	\$ 18,624
Net income per share	\$ 0.46	\$ 0.49	\$ 0.92	\$ 0.93
Weighted average common and common equivalent shares outstanding	22,630	20,119	22,642	20,117

See accompanying Notes to Consolidated Financial Statements

LATTICE SEMICONDUCTOR CORPORATION

CONSOLIDATED BALANCE SHEET
(In Thousands, Except Share Data)

Assets	Sept. 28, 1996	March 30, 1996
	-----	-----
	(unaudited)	
Current assets:		
Cash and cash equivalents	\$ 45,350	\$ 54,600
Short-term investments	187,252	160,570
Accounts receivable	20,294	22,884
Inventories	28,359	21,761
Prepaid expenses and other current assets	22,408	19,301
Deferred income taxes	11,200	9,700
	-----	-----
Total current assets	314,863	288,816
Wafer supply advance	2,450	14,507
Property and equipment, net	29,095	25,471
Foundry investment and other assets	14,209	14,141
	-----	-----
	\$ 360,617	\$ 342,935
	-----	-----
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable and accrued expenses	\$ 20,897	\$ 22,471
Deferred income on sales to distributors	14,016	16,896
Income taxes payable	2,214	4,800
	-----	-----
Total current liabilities	37,127	44,167
Commitments and contingencies	--	--
Stockholders' equity:		
Preferred stock, \$.01 par value, 10,000,000 shares authorized; none issued or outstanding	--	--
Common stock, \$.01 par value, 100,000,000 shares authorized, 22,354,569 and 22,123,069 shares issued and outstanding	223	221
Paid-in capital	185,769	181,957
Retained earnings	137,498	116,590
	-----	-----
Total stockholders' equity	323,490	298,768
	-----	-----
	\$ 360,617	\$ 342,935
	-----	-----

See accompanying Notes to Consolidated Financial Statements.

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

	Six Months Ended	
	Sept. 28, 1996	Sept. 30, 1995
	-----	-----
Cash flows from operating activities:		
Net income	\$ 20,908	\$ 18,624
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	4,060	3,533
Changes in assets and liabilities:		
Accounts receivable	2,590	(2,483)
Inventories	(6,598)	(6,975)
Prepaid expenses and other assets	(367)	(10)
Wafer supply advance	9,248	4,813
Deferred income taxes	(1,500)	(1,599)
Accounts payable and other accrued expenses	(1,574)	4,559
Income taxes payable	(2,586)	(2,455)
Deferred income	(2,880)	2,538
	-----	-----
Total adjustments	393	1,921
	-----	-----
Net cash provided by operating activities	21,301	20,545
	-----	-----
Cash flows from investing activities:		
Purchase of short-term investments, net	(26,682)	(5,021)
Capital expenditures	(7,683)	(6,364)
Proceeds from sale of equipment	--	21
	-----	-----
Net cash used by investing activities	(34,365)	(11,364)
	-----	-----
Cash flows from financing activities:		
Net proceeds from issuance of stock	3,814	9,585
	-----	-----
Net cash provided by financing activities	3,814	9,585
	-----	-----
Net increase (decrease) in cash and cash equivalents	(9,250)	18,766
Beginning cash and cash equivalents	54,600	7,697
	-----	-----
Ending cash and cash equivalents	\$ 45,350	\$ 26,463
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See accompanying Notes to Consolidated Financial Statements.

LATTICE SEMICONDUCTOR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

(1) Basis of Presentation

The accompanying consolidated financial statements are unaudited and have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission and in the opinion of management include all adjustments, consisting only of normal recurring adjustments, necessary for the fair statement of results for the interim periods. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. These consolidated financial statements should be read in conjunction with the audited financial statements and notes thereto included in the Company's annual report on Form 10-K for the fiscal year ended March 30, 1996.

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

(2) Revenue Recognition

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

(3) Net Income Per Share

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

(4) Inventories (in thousands):

	Sept. 28, 1996	March 30, 1996
Work in progress	\$20,598	\$13,174
Finished goods	7,761	8,587
	\$28,359	\$21,761

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

	Common Stock	Paid-in Capital	Retained Earnings	Total
Balances, March 30, 1996	\$ 221	\$181,957	\$116,590	\$ 298,768
Stock option exercises	2	3,806	--	3,808
Other	--	6	--	6
Net income for the six-month period	--	--	20,908	20,908
Balances, Sept. 28, 1996	\$ 223	\$185,769	\$137,498	\$ 323,490

(6) Contingencies:

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

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

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

RESULTS OF OPERATIONS

REVENUE

Revenue was \$48.6 million for the second quarter of fiscal 1997 and 1996, respectively. Revenue for the first six month period of fiscal 1997 was \$96.8 million, as compared to \$93.6 million for the first six month period of fiscal 1996. The majority of the Company's revenue prior to fiscal 1997 was derived from sales of GAL-Registered Trademark- (Generic Array Logic) products, which address the low-density segment of the CMOS programmable logic market. The majority of the Company's revenue growth for the six month period of fiscal 1997 as compared to six month period of fiscal 1996 resulted from the sales of new products, primarily in the high-density segment of the PLD market. Increases in the sales of the Company's high-density products have been significant and have grown consistently as a percentage of the Company's overall revenue. For the first six month period of fiscal 1997, revenue from the sale of high-density products amounted to approximately one-half of the Company's overall revenue.

Revenue from international sales was 48% and 47% of total revenue in the second quarter and the first six month period of fiscal 1997, respectively, as compared to 49% in both the second quarter and the first six month period of fiscal 1996. The Company expects export sales to continue to represent a significant portion of revenue. See "Factors Affecting Future Results".

Overall average selling prices increased in the second quarter and the first six month period of fiscal 1997 as compared to the second quarter and the first six month period of fiscal 1996. This was due primarily to a higher proportion of high-density products included in the revenue mix. Although selling prices of mature products generally decline over time, this decline is at times offset by higher selling prices of new products. The Company's ability to generate revenue growth and increase market penetration is in large part dependent on the continued development, introduction and market acceptance of new products. See "Factors Affecting Future Results".

GROSS MARGIN

The Company's gross margin as a percentage of revenue was 58.9% in the second quarter of fiscal 1997 as compared to 58.5% in the second quarter of

fiscal 1996. For the first six month period of fiscal 1997, the gross margin was 58.9%, an increase from 58.4% in the first six month period of fiscal 1996. This increase in gross margin percentage was primarily due to reductions in the Company's manufacturing costs. Profit margins on older products generally tend to decrease over time as selling prices decline, but the Company's strategy has been to offset these decreases by continuously introducing new products with higher margins.

RESEARCH AND DEVELOPMENT

Research and development expense increased by approximately \$198,000, or 3%, in the second quarter of fiscal 1997 when compared to the second quarter of fiscal 1996, and increased \$569,000, or 4%, in the first six month period of fiscal 1997 when compared to the first six month period of fiscal 1996. This expense represented approximately 14% of revenue for all periods. The spending increases were related primarily to the development of new technologies and new products, including the Company's high-density product families and their related software development tools. The Company believes that a continued commitment to research and development is essential in order to maintain product leadership in its existing product families and to provide innovative new product offerings, and therefore expects to continue to make significant investments in research and development in the future.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSE

Selling, general and administrative expense increased by approximately \$478,000, or 6%, in the second quarter of fiscal 1997 when compared to the second quarter of fiscal 1996, and increased by \$1.0 million, or 7%, in the first six months of fiscal 1997 when compared to the first six months of fiscal 1996. This increase was primarily due to expansion of the Company's sales force and higher sales commissions associated with the higher revenue levels. Selling, general and administrative expense increased to approximately 17% of revenue in the fiscal 1997 periods from approximately 16% of revenue in the fiscal 1996 periods.

INTEREST AND OTHER INCOME

Interest and other income (net of expense) more than doubled to approximately \$2.2 million for the second quarter of fiscal 1997 from approximately \$917,000 for the second quarter of fiscal 1996, and to \$4.2 million for the first six month period of fiscal 1997 from \$1.9 million for the first six month period of fiscal 1996. This was due to higher cash and investment balances resulting from cash generated from operations and the Company's follow-on public offering of common stock in November 1995.

PROVISION FOR INCOME TAXES

The Company's effective tax rate was 33.5% for the second quarter and the first six period of fiscal 1997 as compared to 34.5% for the second quarter and first six period of fiscal 1996. This decrease is due primarily to a

higher amount of non-taxable investment income associated with the higher cash and investment balances as discussed above.

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

FACTORS AFFECTING FUTURE RESULTS

The Company believes that its future operating results will be subject to quarterly variations based upon a wide variety of factors, including the cyclical nature of both the semiconductor industry and the markets addressed by the Company's products, the timing of new product introductions, price erosion, product obsolescence, substantial adverse currency exchange rate movements, variations in product mix, scheduling, rescheduling and cancellation of large orders, competitive factors, the availability of manufacturing capacity, the ability to develop and implement new process technologies, fluctuations in manufacturing yields, changes in effective tax rates and litigation expenses. Due to these and other factors, the Company's past results are a less useful predictor of future results than is the case in more mature and stable industries. The Company has over time increased its level of operating expenses and investment in manufacturing capacity in anticipation of future growth in revenues. To the extent that this revenue growth does not materialize, the Company's operating results would be adversely affected.

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

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

specifically, could adversely affect the market price of the Company's Common Stock.

The Company does not manufacture finished silicon wafers. Its products, however, require wafers manufactured with state-of-the-art fabrication equipment and techniques. Accordingly, the Company's strategy has been to maintain relationships with large semiconductor manufacturers for the production of its wafers. Substantially all of its silicon wafers are currently manufactured by Seiko Epson Corporation ("Seiko Epson") in Japan and sold to the Company, through Seiko Epson's affiliated U.S. distributor, S MOS Systems Inc. ("S MOS"). In connection with a series of agreements entered into in September 1995 with United Microelectronics Corporation ("UMC") providing for the formation of a separate Taiwanese company, United Integrated Circuits Corporation ("UICC"), for the purpose of building and operating an advanced semiconductor manufacturing facility in Taiwan, Republic of China, UMC began supplying the Company with sub-micron production wafers in the third calendar quarter of 1996. A significant interruption in supply from Seiko Epson through S MOS, or from UMC, could have a material adverse effect on the Company's business.

Worldwide manufacturing capacity for silicon wafers is limited and inelastic. Therefore, significant increases in demand or interruptions in supply could adversely affect the Company. Although current commitments are anticipated to be adequate through fiscal 1997, there can be no assurance that existing capacity commitments will be sufficient to permit the Company to satisfy all of its customers' demand in future periods. The Company negotiates wafer prices and wafer supply commitments with its principal wafer suppliers on a periodic basis. Moreover, wafer prices and commitments are subject to continuing review and revision by the parties. However, there can be no assurance that Seiko Epson, S MOS or UMC will not reduce their allocations of wafers or increase prices to the Company in future periods. If any substantial reduction of supply or substantial price increase were to occur, the Company's operating results could be materially adversely affected.

The Company's wafer purchases from Seiko Epson are denominated in Japanese yen. Historical fluctuations in the dollar/yen exchange rate have been significant. There is no assurance that the value of the dollar with respect to the yen will not experience substantial deterioration in the future. Any substantial prolonged or permanent deterioration of dollar/yen exchange rates could have a material adverse effect on the Company's results of operations.

The Company depends upon wafer suppliers to produce wafers with acceptable yields and to deliver them to the Company in a timely manner. Substantially all of the Company's revenues are derived from products based on E(2) CMOS-Registered Trademark- process technology. Successful implementation of the Company's proprietary E(2) CMOS process technology, UltraMOS-Registered Trademark-, requires a high degree of coordination between the Company and its wafer suppliers. The manufacture of high performance E(2) CMOS semiconductor wafers is a complex process that requires a high degree of technical skill, state-of-the-art equipment and effective cooperation between the wafer supplier and the circuit designer

to produce acceptable yields. Minute impurities, errors in any step of the fabrication process, defects in the masks used to print circuits on a wafer and other factors can cause a substantial percentage of wafers to be rejected or numerous die on each wafer to be non-functional. As is common in the semiconductor industry, the Company has from time to time experienced in the past and expects that it will experience in the future production yield problems and delivery delays. Any prolonged inability to obtain adequate yields or deliveries could adversely affect the Company's operating results.

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

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

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

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

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

In an effort to secure additional wafer supply, the Company may from time to time consider various arrangements, including joint ventures with, minority investments in, advanced purchase payments to, loans to or similar arrangements with independent wafer manufacturers in exchange for committed

production capacity. Such arrangements are becoming common within the industry as independent wafer manufacturers increasingly seek to require their customers to share a portion of the cost of capital intensive wafer fabrication facilities. The Company entered into an advanced production payment arrangement with Seiko Epson in 1994 pursuant to which it advanced a total of \$42 million to Seiko Epson. In September 1995, the Company entered into an agreement with UMC to invest approximately \$60 million for a 10% equity interest in a separate Taiwanese company (UICC) providing for the formation of a joint venture with UMC and several other companies for the purpose of building and operating an advanced semiconductor manufacturing facility. To the extent the Company pursues any other such transactions with Seiko Epson, UMC or any other wafer manufacturers, such transactions could entail even greater levels of investment requiring the Company to seek additional equity or debt financing to fund such activities. There can be no assurance that any such additional funding could be obtained when needed or, if available, on terms acceptable to the Company.

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

The semiconductor industry is generally characterized by vigorous protection and pursuit of intellectual property rights and positions, which have on occasion resulted in protracted litigation that utilizes cash and management resources, which can have a significant adverse effect on operating results. The Company has received a letter from a semiconductor manufacturer stating that it believes a number of its patents, related to product packaging, cover certain products previously sold by the Company. While the manufacturer has offered to license certain of such patents to the Company, there can be no assurance on this or any other claim which may be made against the Company, that the Company could obtain a license on terms or under conditions that would be favorable to the Company. In addition, there can be no assurance that other intellectual property claims will not be made against the Company in the future or that the Company will not be prohibited from using the technologies subject to such claims or be required to obtain licenses and make corresponding royalty payments for past or future use.

International revenues accounted for 47% and 49% of the Company's revenues for the first six month periods of fiscal 1997 and fiscal 1996, respectively. The Company believes that international revenues will continue to represent a significant percentage of revenues. International revenues and operations may be adversely affected by the imposition of governmental controls, export license requirements, restrictions on the export of technology, political instability, trade restrictions, changes in tariffs and difficulties in staffing and managing international operations.

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

LIQUIDITY AND CAPITAL RESOURCES

As of September 28, 1996, the Company's principal source of liquidity was \$232.6 million of cash and short-term investments, an increase of approximately \$17.4 million from the balance of \$ 215.2 million at March 30, 1996. This increase was primarily the result of cash generated from operations. The Company also has available an unsecured \$10 million demand bank credit facility with interest due on outstanding balances at a money market rate. This facility has not been used.

Accounts receivable decreased by 11%, or \$2.6 million, as compared to the balance at March 30, 1996. This decrease was primarily due to the lower revenue level in the second quarter of fiscal 1997 as compared to the fourth quarter of fiscal 1996 and the timing of billings to end customers and distributors. Inventories increased by \$6.6 million, or 30%, versus amounts recorded at March 30, 1996 due to increased production based on wafer supply commitments made in anticipation of future requirements. The wafer supply advance decreased by approximately \$12.1 million, or 83%, as compared to the balance at March 30, 1996 due to the receipt of wafers under the Advance Production Payment agreement with Seiko Epson and a \$2.8 million reclassification to "Prepaid expenses and other current assets" as an increase in management's estimate of wafers to be received under this agreement in the next twelve months. Accounts payable and accrued expenses decreased by \$1.6 million, or 7%, as compared to the balance at March 30, 1996 due to timing of wafer receipts and payments. Deferred income on sales to distributors decreased approximately \$2.9 million, or 17%, reflecting lower inventory levels at the distributors. Income taxes payable decreased by \$2.6 million, or 54%, as compared to the balance at March 30, 1996 primarily due to the timing of quarterly tax payments.

Substantially all of the Company's silicon wafer purchases are currently denominated in Japanese yen. The Company maintains

yen-denominated bank accounts and bills its Japanese customers in yen. The yen bank deposits utilized to hedge yen-denominated wafer purchases are accounted for as identifiable hedges against specific and firm wafer purchases.

The Company entered into a series of agreements with UMC in September 1995 pursuant to which the Company has agreed to join UMC and several other companies to form a separate Taiwanese company, UICC, for the purpose of building and operating an advanced semiconductor manufacturing facility in Taiwan, Republic of China. Under the terms of the agreements, the Company will invest approximately \$60 million, payable in three installments over two and one-half years, for a 10% equity interest in the corporation and the right to receive a percentage of the facility's wafer production at market prices. The timing of the payments is related to certain milestones in the development of the advanced semiconductor manufacturing facility. The first payment, in the amount of approximately \$13.7 million, was paid in January 1996, the second payment, in the amount of approximately \$27.2 million, is anticipated to be required during the three month period ending February 1997, and the final payment is anticipated to be required within the six month period ending December 1997. The Company expects to finance these payments from existing sources and funds generated from operations. As a result of the future payments, the Company's working capital will be reduced by an aggregate of approximately \$46.3 million over the time period of the remaining payments.

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

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

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

PART II. OTHER INFORMATION

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

(a) The annual meeting of stockholders was held on August 12, 1996.

(b) The following directors were elected at the meeting to serve a term of three years:

Harry A. Merlo
Larry W. Sonsini

The following directors are continuing to serve their terms:

Daniel S. Hauer
Douglas C. Strain
Cyrus Y. Tsui

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

	For	Withheld		
	-----	-----	-----	-----
(1) Election of directors:				
Harry A. Merlo	19,366,776	219,677		
Larry W. Sonsini	19,297,506	288,947		
	For	Against	Abstain	Not Voted
	-----	-----	-----	-----
(2) Adoption of 1996 Stock Incentive Plan	12,553,973	3,143,100	44,696	6,530,670
(3) Ratification of Price Waterhouse LLP as the Company's independent public accountant for the fiscal year ending March 29, 1997	19,487,352	82,755	16,346	2,685,986

The foregoing matters are described in further detail in the Company's definitive proxy statement dated July 8, 1996, for the Annual Meeting of Stockholders held on August 12, 1996.

ITEM 6. Exhibits and Reports on Form 8-K

(a) Exhibits.

11.1 Computation of Net Income Per Share

27 Financial Data Schedule for Six Months Ended
September 28, 1996

(b) No reports on Form 8-K were filed during the six months ended
September 28, 1996.

SIGNATURES

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

LATTICE SEMICONDUCTOR CORPORATION

Date: November 12, 1996

/s/ Rodney F. Sloss

By: Rodney F. Sloss
Vice President, Finance (Principal
Accounting Officer)

LATTICE SEMICONDUCTOR CORPORATION

COMPUTATION OF NET INCOME PER SHARE
(In Thousands, Except Per Share Data)
(unaudited)

	Three Months Ended		Six Months Ended	
	Sept. 28, 1996	Sept. 30, 1995	Sept. 28, 1996	Sept. 30, 1995
Net income	\$ 10,460	\$ 9,778	\$ 20,908	\$ 18,624
Weighted average common stock and common stock equivalents:				
Common stock	22,319	19,412	22,253	19,226
Options and warrants	311	707	389	891
	22,630	20,119	22,642	20,117
Net income per share	\$ 0.46	\$ 0.49	\$ 0.92	\$ 0.93

6-MOS

MAR-29-1997
MAR-31-1996
SEP-28-1996
45,350
187,252
20,294
839
28,359
314,863
64,498
35,403
360,617
37,127
0
0
223
323,267
360,617
48,638
48,638
19,995
35,077
0
0
(2,168)
15,729
5,269
10,460
0
0
0
10,460
0.46
0.46