

♩ LATTICE SEMICONDUCTOR CORPORATION 1999 ANNUAL REPORT

♭: ORCHESTRATING SUCCESS



## FINANCIAL HIGHLIGHTS

(IN THOUSANDS, EXCEPT PER SHARE DATA)	YEAR ENDED		
	APRIL 3, 1999	MARCH 28, 1998	MARCH 29, 1997
Revenue	\$200,072	\$245,894	\$204,089
Net income	\$ 42,046	\$ 56,567	\$ 45,005
Basic net income per share	\$ 1.79	\$ 2.43	\$ 2.00
Diluted net income per share	\$ 1.77	\$ 2.37	\$ 1.96
Cash and short-term investments	\$319,434	\$267,110	\$228,647
Total assets	\$540,896	\$489,066	\$403,462
Stockholders' equity	\$483,734	\$434,686	\$360,491

## CORPORATE PROFILE

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



*Art over adversity. The last thirty years of*

*Ludwig van Beethoven's life (1770-1827)*

*were a series of personal crises, the most*

*profound of which was the onset of deafness,*



**Music is both mathematical and emotional, both science and art. It can be endlessly analyzed and dissected... but never fully explained.**

*which advanced to the point that he could no*

*longer perform publicly and required notebooks*

*(his "conversation books") to communicate with*

*visitors. His reactions—despair, resignation,*

*and defiance—are conveyed in a series of*

*letters to his brothers and closest friends.*

*Writing in November 1801, Beethoven resolved*

*to "seize fate by the throat," and finally emerged*

*from his crisis with a series of triumphant*

*works that marked the beginning of*

*a new period in his development.*

**It is the simplicity of the single note and the complexity of the symphony. Equally elusive are the ingredients in the creation and management of the company that endures over time. "Music," wrote Confucius, "is born of emotion." Companies,**

*The mechanics of success.*

**too, are born of the emotion of a single, often**

*A tourist visiting New York City*

**remarkable, idea, but their performance can only be**

*asked a local resident how*

**measured by their discipline and execution in times**

*to get to Carnegie Hall.*

**of both prosperity and adversity. —Cyrus Tsui**

*The resident, a musician,*

*paused for several moments,*

*sighed and then answered,*

*"Practice, practice, practice."*



The composition of music and the creation of a company begin with the choice of a single note. It is a critically important and daunting selection. That one note is the introduction of a composition to its audience, and of a company to its marketplace.



Yet that choice, as important as it is, marks only the finite beginning of an infinite process. Once that initial note is played, the destination—and destiny—of both the music and the company are without limits. Some will succeed, but most will not. The test of time will be administered in three parts: the composition, the performance and, most importantly, the impact.



In this past fiscal year, Lattice Semiconductor continued to perform its own music in the face of adversity. It was not the best of years for the semiconductor industry. As we predicted last year, economic cycles, particularly in Asia, wreaked considerable havoc upon the fortunes of companies in general and, more

specifically, those in the technology sector.

During the past fiscal year, revenues and income both dropped significantly from the record levels of the prior year, but notwithstanding this, we further strengthened our already powerful balance sheet by adding substantially to our cash and short-term investments even after the repurchase of our stock in the open market.





Despite last year's adverse market conditions, we maintained a high level of profitability and also made enormous progress in positioning ourselves for future growth and expansion. This progress can be measured



substantively by our record number of new product introductions; and by our success in retaining the loyalty of existing customers as we earned the business of new customers.

More qualitatively, our performance in the past year was characterized by a disciplined, resilient and supportive corporate work ethic that demands and rewards innovation, execution and customer satisfaction. Overall, Lattice Semiconductor has emerged from a difficult year stronger financially, competitively and culturally than at any time in our history. And, we find ourselves better positioned to serve a greater percentage of our customer needs in a dynamic and growing industry.

The lives of individuals and companies are affected daily by events over which they cannot control. Those who rise above the ordinary are those who persevere no matter what those events may bring. Luck is always welcome, but the door can never be barred to bad fortune. Both the artist and the entrepreneur succeed only when they are determined to stay the course through good times and bad: to play that single, defining note and expand it into a melody that finds enthusiastic acceptance in the marketplace.





For Lattice Semiconductor, our single and defining note has always been programmability. It is a note that has defined our company and our success; a finite note that we have expanded into a virtually infinite composition of applications. Our emphasis on the technology and application of programmability has continually expanded our horizons and has been well received by our customers and marketplace.

During his career, Beethoven not only appreciated but also created “new” music. He took familiar forms and restructured them in ways that were revolutionary, yet found broad acceptance among audiences.



Such, too, has been the mission of Lattice Semiconductor. Our emphasis upon programmability has repeatedly demanded that we anticipate transitions in technology and changing customer requirements, and that we choose often contrarian avenues to success.

When the PLD industry was dominated by bipolar technology, Lattice anticipated and implemented the superior approach of E<sup>2</sup>CMOS. That technology has now become the industry standard—in fact, bipolar PLDs, once the unassailable benchmark of the industry, are now obsolete and no longer supported.

When it became clear that “high density” (gate counts over 1000) PLDs would be the “music” of the industry, Lattice was not content to simply play a song similar to its competitors. Instead, we developed in-system programmable (ISP™) products and made them an integral part of the high density market and, in so doing, both broke and redefined the rules of our





industry. When it became clear that software design tools were every bit as important to designers as the silicon devices themselves, Lattice Semiconductor developed a core

competency in CAE software and delivered, within an industry-standard design environment, products that are second to none.

Customer demand for high density, complex programmable logic devices is never static. The audience both demands and expects new compositions. Now, a sweeping technology transition is driving our customers to adopt three volt rather than five volt devices to build the next generation of digital electronic equipment. And, again, Lattice Semiconductor anticipated this transition and has seized the initiative, delivering a three volt PLD offering without equal in the industry.



In the past year, Lattice Semiconductor, as promised, introduced a new composition to the marketplace: a revolutionary portfolio of products called "Operation BFW." Operation BFW includes The Biggest density, The Fastest performance and The Widest logic PLD families. Collectively, they define the largest, most innovative new product event in the history of Lattice.





In developing the SuperBIG™, SuperFAST™, and SuperWIDE™ products, Lattice systematically evaluated the requirements of the contemporary system logic designer. Leveraging our prior success with in-system programmable (ISP) products, Lattice delivered new innovative architectures and features to provide comprehensive and optimized design solutions.



As pleased as we—and our customers—are with our new “BFW” family of products, they have already become for us, a melody we remember fondly but one that must inexorably be superseded. Yet whatever displaces that melody will, as always, be composed upon the single note of programmability and that note will, as always, be the one that resonates with our audience.

Lattice Semiconductor is not just a single composer but is also an orchestra. Now, how is an orchestra built, and how does it achieve success? First, there must be a vision—a clear understanding of the desired result. Then, the individual talent must be recruited that is essential to realizing the vision. In turn, individual talent must coalesce and become one. Finally, the performance



must be one that “touches” the audience. Most importantly, the world-class orchestra and the world-class company must understand that their work is never done: that they must always grow and expand,

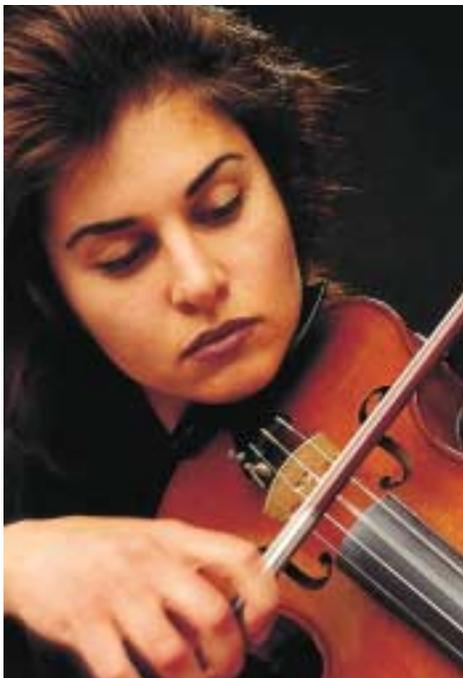


adding both quality and quantity to serve a broader audience and to perform impressively in times of adversity.

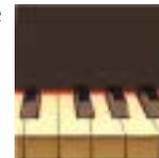


As precious and impressive as the talent of the individual musician and entrepreneur may be, few achieve enduring recognition. Yes, there is magic and art in both music and business. Countless books and seminars are to be found on both subjects, precisely because there is no one definition and no one “right” way to succeed in either.

But there is nothing ambiguous about the fundamental discipline and hard work that precede the performance. Musical instruments must be exactly crafted, just as business strategies must be painstakingly conceived. Artists and workers alike must rigorously adhere to schedules, exhaustively rehearse and, finally, perform both as individuals and as partners in a collective effort.



In the past year, Lattice Semiconductor performed well despite adversity, achieving over 20% after-tax profitability while other companies labored to limit their losses. The concert hall was not completely full, yet we continued to play, building and expanding our orchestra, supporting and complementing one another, delivering music that we were confident would find an appreciative audience—one that will, very soon we believe, fill every seat in the house.





The individual and the enterprise that perform well in times of challenge will invariably be celebrated in times of prosperity. That the past year was a challenging one is undeniable. Yet it is in such times that the mettle of people and companies are most truly tested. The people of Lattice Semiconductor did not cower when confronted with difficulty. Instead, they, in Beethoven's words, "seized fate by the throat," determined to move forward, to do what was right rather than what was expedient, and to control their own





destiny. By those demanding standards, Lattice Semiconductor was as successful in our 1999 fiscal year as it has ever been. In the years to come, we remain robustly confident that our music will anticipate and reward the expectations of a demanding audience.

Thank you.

*Cyrus Tsui, President, Chief Executive and Chairman of the Board*





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

Lattice Semiconductor Corporation, (the "Company"), designs, develops and markets the broadest range of high-performance in-system programmable ("ISP™") programmable logic devices ("PLDs"). The Company introduced ISP devices to the industry in 1992. PLDs are standard semiconductor components that can be configured by the end customer as specific logic functions, enabling shorter design cycle times and reduced development costs. Lattice products are sold worldwide through an extensive network of independent sales representatives and distributors, primarily to original equipment manufacturers ("OEMs") of communication, computing, industrial and military systems. Approximately one-half of the Company's revenue is derived from export sales, mainly to Europe and Asia. The Company was founded in 1983 and is based in Hillsboro, Oregon.

## RESULTS OF OPERATIONS

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

	YEAR ENDED		
	APRIL 3, 1999	MARCH 28, 1998	MARCH 29, 1997
Revenue	100%	100%	100%
Costs and expenses:			
Cost of products sold	39	40	41
Research and development	17	13	14
Selling, general and administrative	18	16	16
	74	69	71
Income from operations	26	31	29
Interest and other income (net)	5	4	4
Income before provision for income taxes	31	35	33
Provision for income taxes	10	12	11
Net income	21%	23%	22%

**Revenue** Revenue was \$200.1 million in fiscal 1999, a decrease of 19% from fiscal 1998. Fiscal 1998 revenue of \$245.9 million represented an increase of 20% from the \$204.1 million recorded in fiscal 1997.

Fiscal 1999 revenue as compared to fiscal 1998 was negatively impacted by a decline in demand from Asia due to the economic crisis in that region. Furthermore, revenue in all geographies was negatively impacted by a decline in demand for the Company's non-ISP product families. The Company's revenue growth in fiscal 1998 was the result of sales increases of ISP products. Revenue from ISP products was approximately 72%, 65% and 48% of total revenue for fiscal 1999, 1998 and 1997, respectively. The remainder of revenue was derived from non-ISP product families.

The Company's sales by geographic area were as follows:

(IN THOUSANDS)	YEAR ENDED		
	APRIL 3, 1999	MARCH 28, 1998	MARCH 29, 1997
United States	\$100,778	\$120,278	\$104,249
Export sales			
Europe	53,649	61,243	39,863
Asia	34,680	55,853	52,624
Other	10,965	8,520	7,353
	\$200,072	\$245,894	\$204,089

Revenue from export sales was approximately 50%, 51% and 49% of total revenue for fiscal 1999, 1998 and 1997, respectively. The Company expects export sales to continue to represent a significant portion of revenue. See "Factors Affecting Future Results."

The average selling price of the Company's products was flat in fiscal 1999 as compared to fiscal 1998. The average selling price increased in fiscal 1998 as compared to fiscal 1997. This change was due primarily to an increased proportion of ISP products in the revenue mix. Although selling prices of mature products generally decline over time, this decline is at times offset by higher selling prices of new products. The Company's ability to maintain or increase the level of its average selling price is 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 61%, 60% and 59% for fiscal years 1999, 1998 and 1997, respectively. The improvement was primarily due to an improvement in product mix and reductions in the Company's manufacturing costs. Reductions in manufacturing costs resulted primarily from yield improvements, migration of products to more advanced technologies and smaller die sizes, and wafer price reductions.

**Research and Development** Research and development expense was \$33.2 million, \$32.0 million and \$27.8 million in fiscal 1999, 1998 and 1997, respectively. Spending increases resulted primarily from the development of new products, including the Company's ISP families and related software development tools. The Company believes that a continued commitment to research and development is essential in order to maintain product leadership in its existing product families and provide innovative new product offerings, and therefore expects to continue to make significant future investments in research and development.

**Selling, General and Administrative** Selling, general and administrative expense was \$36.8 million, \$39.9 million and \$33.6 million in fiscal 1999, 1998 and 1997, respectively. The decrease in fiscal 1999 expense as compared to fiscal 1998 was primarily due to decreased sales commissions associated with lower revenue levels. The increase in fiscal 1998 expenses as compared to fiscal 1997 was primarily due to expansion of the Company's sales force and increased sales commissions associated with higher revenue levels.

*Income from Operations* Income from operations decreased 31%, from \$75.1 million to \$51.6 million, from fiscal 1998 to fiscal 1999, and increased 27%, from \$59.0 million, between fiscal 1997 and fiscal 1998. Income from operations as a percentage of revenue decreased to 26% in fiscal 1999 from 31% and 29% in fiscal 1998 and fiscal 1997 respectively.

*Interest and Other Income (Expense), Net* Interest and other income (net of expense) was approximately flat between fiscal 1998 and fiscal 1999 but increased by approximately \$1.9 million from fiscal 1997 to fiscal 1998. The increase was primarily due to higher cash and investment balances resulting from cash generated from operations and common stock issuance from employee stock option exercises. In fiscal 1999, these higher cash and investment balances were offset by lower interest rates for invested balances, particularly in the second half of the fiscal year.

*Provision for Income Taxes* The Company's effective tax rate was 32.5%, 34.0% and 33.5% for fiscal 1999, 1998 and 1997, respectively. The fiscal 1999 and 1998 rate changes were due primarily to changes in the proportion of tax-exempt interest income included in the Company's overall net income. The fiscal 1999 rate was also favorably impacted by reduced state taxes resulting from the increased realization of tax credits.

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

*Net Income* Net income decreased 26%, from \$56.6 million to \$42.0 million, from fiscal 1998 to fiscal 1999, and increased 26%, from \$45.0 million, between fiscal 1997 and fiscal 1998. Net income as a percentage of revenue was 21%, 23% and 22% for fiscal years 1999, 1998 and 1997, respectively.

## FACTORS AFFECTING FUTURE RESULTS

Notwithstanding the objectives, projections, estimates and other forward-looking statements in this Annual Report, the Company's future operating results will continue to be subject to quarterly variations based on a wide variety of risks. These risks include, but are not limited to:

*Our wafer supply could be interrupted or reduced and result in a shortage of finished products available for sale.*

We do not manufacture finished silicon wafers. Currently all our silicon wafers are manufactured by Seiko Epson in Japan and the UMC Group, a group of affiliated companies in Taiwan. If Seiko Epson, through its U.S. affiliate Epson Electronics America, or the UMC Group significantly interrupts our wafer supply, our operating results would be adversely affected.

In the past, we have experienced delays in obtaining wafers and 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, during times of capacity

shortage, 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 on at least an annual basis. If Seiko Epson, Epson Electronics America or the UMC Group reduces our supply commitment or increases our wafer prices, and we cannot find alternative sources of wafer supply, our operating results could be adversely affected.

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 adversely affected by significant industry wide increases in overall wafer demand or interruptions in wafer supply. Additionally, a disruption of Seiko Epson's or the UMC Group's foundry operations as a result of a fire, earthquake or other natural disaster would disrupt our wafer supply and would have an adverse effect on our operating results.

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

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

Substantially all of our revenues are derived from products based on a specialized silicon wafer manufacturing process technology called E<sup>2</sup>CMOS<sup>®</sup>. The reliable manufacture of high performance E<sup>2</sup>CMOS semiconductor wafers is a complicated and technically demanding process requiring:

- a high degree of technical skill;
- state-of-the-art equipment;
- the absence of defects in the masks used to print circuits on a wafer;
- the elimination of minute impurities and errors in each step of the fabrication process; and
- effective cooperation between the wafer supplier and the circuit designer.

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.*

In order to develop new products and maintain the competitiveness of existing products, we need to migrate to more advanced wafer manufacturing processes that utilize larger wafer sizes and smaller device geometries. We may also utilize additional foundries. Since 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 E<sup>2</sup>CMOS<sup>®</sup> process technologies at the new fabs of Seiko Epson, the UMC Group or future foundries may not be achieved. This could have an adverse effect on our operating results.



*We may be unsuccessful in defining and developing new products required to maintain or grow our business.*

As a semiconductor company, we operate in a dynamic environment marked by rapid product obsolescence. Our future success depends on our ability to introduce new or improved products that meet customer needs while achieving acceptable margins. If we fail to introduce these new products in a timely manner or these products fail to achieve market acceptance, our business and financial condition will be adversely affected.

The introduction of new 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 success of a new product depends on accurate forecasts of long-term market demand and future technology developments.

Our future revenue growth is dependent on market acceptance of our new proprietary ISP™ product families and the continued market acceptance of our proprietary software development tools. 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; and
- the quality and reliability of the product.

If, due to these or other factors, our new ISP products do not achieve market acceptance, our business and financial condition will be adversely affected.

*We may experience unexpected difficulties integrating Vantis Corporation.*

Integration of Vantis has begun (See note 13 of notes to Consolidated Financial Statements). If integration is unsuccessful, or more difficult, or more time consuming than originally planned, we may incur unexpected disruptions to our ongoing business. These disruptions may have an adverse effect on our operations and financial results. Further, the following specific factors may adversely affect our ability to smoothly and quickly integrate the business of Vantis:

- We may experience unexpected losses of key employees or customers;
- We may experience difficulties and delays in conforming the standards, processes, procedures and controls of our two businesses;
- We may experience unexpected costs and discover unexpected liabilities;
- We may not receive product manufacturing and administrative services from Vantis's former parent corporation, AMD, at a level of quality and timeliness consistent with the historical delivery of this support;
- We may not achieve expected levels of revenue growth, cost reduction and profitability improvement; and
- We may not be able to coordinate our new product and process development in a way which permits us to bring new technologies to the market in a timely manner.

*Continued deterioration of conditions in Asia may disrupt our existing supply arrangements and result in a shortage of finished products available for sale.*

Our two silicon wafer suppliers operate fabs located in Asia. Our finished silicon wafers are assembled and tested by independent subcontractors located in Hong Kong, Malaysia, the Philippines, South Korea and Taiwan. A prolonged interruption in our supply from any of these subcontractors could have an adverse effect on our operating results.

Although we have yet not experienced significant supply interruptions, the economic, financial, social and political situation in Asia has recently been volatile. Financial difficulties, governmental actions or restrictions, prolonged work stoppages or any other difficulties experienced by these suppliers may disrupt our supply and could have an adverse effect on our operating results. Our wafer purchases from Seiko Epson are denominated in Japanese yen. The value of the dollar with respect to the yen has fluctuated in the past and may not remain stable in the future. Future substantial deterioration of dollar-yen exchange rates could have an adverse effect on our operating results.

*Export sales account for a substantial portion of our revenues and may decline in the future due to economic and governmental uncertainties.*

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

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

For example, our export sales have recently been affected by the Asian economic crisis. Significant changes in the economic climate in the foreign countries where we derive our export sales could have an adverse effect on our operating results.

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

We rely on subcontractors 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, there could be an adverse effect on our operating results.

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 lead frames used to attach semiconductor devices to the package;
- the elimination of raw material impurities and errors in each step of the process; and
- effective cooperation between the assembly subcontractor and the device manufacturer.

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

*The cyclical nature of the semiconductor industry may limit our ability to maintain or grow revenue and profit levels during future industry downturns.*

The semiconductor industry is highly cyclical, to a greater extent than other less dynamic or less technology-driven industries. In the past, our financial performance has been negatively affected by significant downturns in the semiconductor industry as a result of:

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

If these or other conditions in the semiconductor industry occur in the future, there could be an adverse effect on our operating results.

*Our stock price may continue to experience large short-term fluctuations which may result in investors losing all or part of their investment.*

In recent years, the price of our common stock has fluctuated greatly. These price fluctuations have been rapid and severe and have left investors little time to react. The price of our common stock may continue to fluctuate greatly in the future due to a variety of company-specific factors, including:

- quarter-to-quarter variations in our operating results;
- shortfalls in revenues or earnings from levels expected by securities analysts;
- announcements of technological innovations or new products by other companies.

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

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

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

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

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

management personnel. In addition, we may not be able to attract additional qualified employees in the future. If we are unable to retain existing key employees or are unable to hire new qualified employees, our operating results could be adversely affected.

*If we are not able to adequately protect our intellectual property rights, our financial results and competitive position may suffer.*

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

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

Companies in the semiconductor industry vigorously pursue their intellectual property rights. If we become involved in protracted intellectual property disputes or litigation we may utilize substantial financial and management resources, which could have an adverse effect on our operating results. We may also be subject to future intellectual property claims or judgements. If these were to occur, we may not be able to obtain a license on favorable terms or without our operating results being adversely affected.

#### **YEAR 2000 COMPLIANCE**

The Company is currently working to address the potential impact of the Year 2000 on the processing of information by the Company's computerized systems, including interfaces to its business partners.

In June 1999, the Company completed its planned Year 2000 compliance activities with respect to its products and internal systems, software, equipment and facilities. Based solely on these activities, management believes that all products and material internal systems, software, equipment and facilities are currently Year 2000 compliant. The Company does not anticipate that potential Year 2000 issues will have a material adverse impact on the Company's financial position or operating results. In aggregate, approximately \$2 million in expenses were incurred to fund Year 2000 compliance activities.

However, the Company could be adversely impacted if any of our critical business partners were to experience a severe business interruption due to a failure to address their internal Year 2000 issues in a timely manner. The most reasonably likely worst case Year 2000 scenario is a temporary disruption in supplier deliveries or customer shipments. If a severe disruption occurs in either of these two areas and is not corrected in a timely manner, a revenue or profit shortfall may result in the first half of calendar year 2000. Based solely on responses received to date from our business partners, the Company has no reason to believe that there will be such a material adverse impact. However, if the responses received from our business partners are inaccurate or happen to change, then there could be such a material adverse impact. Management plans to evaluate Year 2000



business interruption scenarios and develop appropriate contingency plans by September 1999.

#### QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As of April 3, 1999 and March 28, 1998, the Company's investment portfolio consisted of fixed income securities of \$293.4 million and \$245.5 million, respectively. As with all fixed income instruments, these securities are subject to interest rate risk and will decline in value if market interest rates increase. If market rates were to increase immediately and uniformly by 10% from levels as of April 3, 1999 and March 28, 1998, the decline in the fair value of the portfolio would not be material. Further, the Company has the ability to hold its fixed income investments until maturity and, therefore, the Company would not expect to recognize such an adverse impact in income or cash flows.

The Company has international subsidiary and branch operations. Additionally, the majority of the Company's silicon wafer purchases are denominated in Japanese yen. The Company is therefore subject to foreign currency rate exposure. To mitigate rate exposure with respect to yen-denominated wafer purchases, the Company maintains yen-denominated bank accounts and bills its Japanese customers in yen. The yen bank deposits are utilized to hedge yen-denominated wafer purchases against specific and firm wafer purchases. If the foreign currency rates fluctuate by 10% from rates at April 3, 1999 and March 28, 1998, the effect on the company's consolidated financial statements would not be material. However, there can be no assurance that there will not be a material impact in the future.

#### LIQUIDITY AND CAPITAL RESOURCES

As of April 3, 1999, the Company's principal source of liquidity was \$319.4 million of cash and short-term investments, an increase of \$52.3 million from the balance of \$267.1 million at March 28, 1998. This increase was primarily the result of cash generated from operations and common stock issuance.

Accounts receivable decreased \$4.4 million, or 16%, as compared to the balance at March 28, 1998. This decrease was primarily due to lower revenue levels. Inventories decreased by \$5.0 million, or 22%, versus amounts recorded at March 28, 1998 due to decreased production in response to lower revenue levels. Accounts payable and other accrued expenses remained approximately flat versus balances recorded at March 28, 1998, as decreased inventory expenditures were offset by the timing of payments of other expenses. Accrued payroll obligations increased \$2.3 million, or 21%, as compared to the balance at March 28, 1998 due to timing of payments. Income taxes payable increased \$0.8 million, or 18%, as compared to the balance at March 28, 1998 due to the timing of tax deductions and payments.

Stockholders' equity increased by approximately \$49.0 million, primarily due to net income of approximately \$42.0 million for fiscal 1999 and net proceeds from common stock issuance. These combined net proceeds were partially offset by stock repurchases aggregating approximately \$9.2 million.

Capital expenditures were approximately \$18.4 million, \$18.8 million and \$10.6 million for fiscal years 1999, 1998 and 1997, respectively. These consisted primarily of manufacturing test equipment, engineering equipment, buildings and building improvements. The increase in fiscal 1999 and 1998 capital expenditures as compared to fiscal 1997 was associated with construction in process of an

additional corporate headquarters building and increased investment in manufacturing test equipment to support the growth in unit volumes of ISP products.

The Company currently anticipates capital expenditures of approximately \$20 to \$25 million for the fiscal year ending April 1, 2000.

The Company entered into a series of agreements with United Microelectronics Corporation ("UMC") in September 1995 pursuant to which the Company agreed to join UMC and several other companies to form a separate Taiwanese company, United Integrated Circuits Corporation ("UICC"), for the purpose of building and operating an advanced semiconductor manufacturing facility in Taiwan, Republic of China. Under the terms of the agreements, the Company invested approximately \$49.7 million between fiscal 1996 and fiscal 1998, for an approximate 10% equity interest in UICC and the right to receive a percentage of the facility's wafer production at market prices.

In March 1997, the Company entered into an advance payment production agreement with Seiko Epson Corporation ("Seiko Epson") and its affiliated U.S. distributor, Epson Electronics America, Inc. ("EEA") under which it agreed to advance approximately \$85 million, payable upon completion of specific milestones, to Seiko Epson to finance construction of an eight-inch sub-micron semiconductor wafer manufacturing facility. Under the terms of the agreement, the advance is to be repaid with semiconductor wafers over a multi-year period. The agreement calls for wafers to be supplied by Seiko Epson through EEA pursuant to purchase agreements with EEA. The Company also has an option under this agreement to advance Seiko Epson an additional \$60 million for additional wafer supply under similar terms. The first payment pursuant to this agreement, approximately \$17.0 million, was made during fiscal 1997. During fiscal 1998, the Company made two additional payments aggregating approximately \$34.2 million. As a result of anticipated future payments to Seiko Epson, the Company expects that its working capital will be reduced by approximately \$34 million during fiscal 2000.

On April 21, 1999, the Company announced a definitive agreement to acquire Vantis Corporation, a wholly owned subsidiary of Advanced Micro Devices, Inc. ("AMD"), for approximately \$500 million in cash, including the acquisition of an approximately \$60 million in net tangible assets. This acquisition was completed June 15, 1999 and was financed with approximately \$250 million in existing cash and \$250 million in bank borrowings. Vantis Corporation designs, develops and markets programmable logic devices. The acquisition will be accounted for as a purchase.

The Company believes that its existing sources of liquidity and expected cash generated from operations, along with the debt financing for the Vantis acquisition, will be adequate to fund the Company's anticipated cash needs for the next twelve months.

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



SELECTED FINANCIAL DATA

(IN THOUSANDS, EXCEPT PER SHARE DATA)	YEAR ENDED				
	APRIL 3, 1999	MARCH 28, 1998	MARCH 29, 1997	MARCH 30, 1996	APRIL 1, 1995
STATEMENT OF OPERATIONS DATA:					
Revenue	\$200,072	\$245,894	\$204,089	\$198,167	\$144,083
Costs and expenses:					
Cost of products sold	78,440	98,883	83,736	82,216	58,936
Research and development	33,190	32,012	27,829	26,825	22,859
Selling, general and administrative	36,818	39,934	33,558	31,323	25,020
	<b>148,448</b>	170,829	145,123	140,364	106,815
Income from operations	51,624	75,065	58,966	57,803	37,268
Interest and other income, net	10,668	10,643	8,712	5,442	3,349
Income before provision for income taxes	62,292	85,708	67,678	63,245	40,617
Provision for income taxes	20,246	29,141	22,673	21,461	13,651
Net income	<b>\$ 42,046</b>	\$ 56,567	\$ 45,005	\$ 41,784	\$ 26,966
Basic net income per share	<b>\$ 1.79</b>	\$ 2.43	\$ 2.00	\$ 2.06	\$ 1.45
Diluted net income per share	<b>\$ 1.77</b>	\$ 2.37	\$ 1.96	\$ 1.99	\$ 1.41
Shares used in per share calculations:					
Basic net income	23,487	23,239	22,460	20,327	18,627
Diluted net income	23,819	23,894	22,973	20,979	19,164

BALANCE SHEET DATA:

Working capital	\$324,204	\$283,678	\$267,669	\$244,649	\$106,021
Total assets	540,896	489,066	403,462	342,935	192,917
Stockholders' equity	483,734	434,686	360,491	298,768	157,797

	YEAR ENDED APRIL 3, 1999				YEAR ENDED MARCH 28, 1998			
	FOURTH QUARTER	THIRD QUARTER	SECOND QUARTER	FIRST QUARTER	FOURTH QUARTER	THIRD QUARTER	SECOND QUARTER	FIRST QUARTER

UNAUDITED QUARTERLY DATA:

Revenue	\$53,788	\$50,168	\$48,088	\$48,028	\$60,168	\$60,038	\$64,068	\$61,620
Gross profit	\$33,045	\$30,623	\$29,045	\$28,919	\$36,071	\$36,183	\$38,165	\$36,592
Net income	\$11,848	\$10,513	\$ 9,870	\$ 9,816	\$13,818	\$13,651	\$14,930	\$14,168
Basic net income per share	\$ 0.50	\$ 0.45	\$ 0.42	\$ 0.42	\$ 0.59	\$ 0.58	\$ 0.64	\$ 0.62
Diluted net income per share	\$ 0.49	\$ 0.45	\$ 0.42	\$ 0.41	\$ 0.58	\$ 0.57	\$ 0.62	\$ 0.60



CONSOLIDATED BALANCE SHEET

(IN THOUSANDS, EXCEPT SHARE AND PAR VALUE AMOUNTS)

APRIL 3,  
1999

MARCH 28,  
1998

*Assets*

Current assets:

Cash and cash equivalents	\$ 79,301	\$ 60,344
Short-term investments	240,133	206,766
Accounts receivable, net	23,788	28,229
Inventories (note 2)	17,683	22,647
Prepaid expenses and other current assets	6,061	5,572
Deferred income taxes (note 6)	14,400	14,500
Total current assets	381,366	338,058
Foundry investments, advances and other assets (notes 4 and 8)	114,537	114,338
Property and equipment, less accumulated depreciation (note 3)	44,993	36,670
	\$540,896	\$489,066

*Liabilities and Stockholders' Equity*

Current liabilities:

Accounts payable and accrued expenses (note 8)	\$ 18,611	\$ 18,196
Accrued payroll obligations	13,573	11,231
Income taxes payable (note 6)	4,985	4,210
Deferred income	19,993	20,743
Total current liabilities	57,162	54,380
Commitments and contingencies (notes 4, 5, 8, 9 and 10)	—	—
Stockholders' equity (note 7):		
Preferred stock, \$.01 par value, 10,000,000 shares authorized; none issued and outstanding	—	—
Common stock, \$.01 par value, 100,000,000 shares authorized; 23,597,236 and 23,428,072 shares issued and outstanding	236	234
Paid-in capital	223,290	216,290
Retained earnings	260,208	218,162
	483,734	434,686
	\$540,896	\$489,066

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THIS STATEMENT.



## CONSOLIDATED STATEMENT OF OPERATIONS

(IN THOUSANDS, EXCEPT PER SHARE DATA)	YEAR ENDED		
	APRIL 3, 1999	MARCH 28, 1998	MARCH 29, 1997
Revenue	<b>\$200,072</b>	\$245,894	\$204,089
Costs and expenses:			
Cost of products sold (note 8)	<b>78,440</b>	98,883	83,736
Research and development	<b>33,190</b>	32,012	27,829
Selling, general and administrative (note 11)	<b>36,818</b>	39,934	33,558
	<b>148,448</b>	170,829	145,123
Income from operations	<b>51,624</b>	75,065	58,966
Other income (expense):			
Interest income	<b>11,279</b>	10,277	8,886
Other income (expense), net	<b>(611)</b>	366	(174)
Income before provision for income taxes	<b>62,292</b>	85,708	67,678
Provision for income taxes (note 6)	<b>20,246</b>	29,141	22,673
Net income	<b>\$ 42,046</b>	\$ 56,567	\$ 45,005
Basic net income per share	<b>\$ 1.79</b>	\$ 2.43	\$ 2.00
Diluted net income per share	<b>\$ 1.77</b>	\$ 2.37	\$ 1.96
Shares used in per share calculations:			
Basic net income	<b>23,487</b>	23,239	22,460
Diluted net income	<b>23,819</b>	23,894	22,973

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THIS STATEMENT.



CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

(IN THOUSANDS, EXCEPT PAR VALUE)	COMMON STOCK		PAID-IN CAPITAL	RETAINED EARNINGS	TOTAL
	(S.01 SHARES	PAR VALUE) AMOUNT			
Balances, March 30, 1996	22,123	\$221	\$ 181,957	\$ 116,590	\$ 298,768
Common stock issued	755	8	10,516	—	10,524
Tax benefit of option exercises	—	—	6,179	—	6,179
Other comprehensive income	—	—	15	—	15
Net income for fiscal 1997	—	—	—	45,005	45,005
Balances, March 29, 1997	22,878	229	198,667	161,595	360,491
Common stock issued	550	5	12,546	—	12,551
Tax benefit of option exercises	—	—	5,225	—	5,225
Other comprehensive income (loss)	—	—	(148)	—	(148)
Net income for fiscal 1998	—	—	—	56,567	56,567
Balances, March 28, 1998	23,428	234	216,290	218,162	434,686
Common stock issued	507	5	11,207	—	11,212
Repurchase of common stock	(338)	(3)	(9,155)	—	(9,158)
Tax benefit of option exercises	—	—	4,888	—	4,888
Other comprehensive income	—	—	60	—	60
Net income for fiscal 1999	—	—	—	42,046	42,046
Balances, April 3, 1999	<b>23,597</b>	<b>\$236</b>	<b>\$223,290</b>	<b>\$260,208</b>	<b>\$483,734</b>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THIS STATEMENT.



CONSOLIDATED STATEMENT OF CASH FLOWS

(IN THOUSANDS)	YEAR ENDED		
	APRIL 3, 1999	MARCH 28, 1998	MARCH 29, 1997
Cash flow from operating activities:			
Net income	\$ 42,046	\$ 56,567	\$ 45,005
Adjustments to reconcile net income to net cash provided (used) by operating activities:			
Depreciation and amortization	10,064	9,558	8,629
Deferred income taxes	100	(2,775)	(2,025)
Changes in assets and liabilities:			
Accounts receivable	4,441	(2,289)	(3,056)
Inventories	4,964	5,162	(6,048)
Prepaid expenses and other current assets	(489)	(2,654)	(750)
Foundry investments, advances and other assets	(199)	(25,154)	(7,439)
Accounts payable and accrued expenses	415	3,920	(739)
Accrued payroll obligations	2,342	1,583	2,192
Income taxes payable	775	3,428	(4,018)
Deferred income	(750)	2,478	1,369
Net cash provided by operating activities	<b>63,709</b>	49,824	33,120
Cash flow from investing activities:			
Purchase of short-term investments, net	(33,367)	(32,068)	(14,128)
Foundry investments	—	(10,164)	(25,800)
Capital expenditures	(18,387)	(18,825)	(10,561)
Net cash used by investing activities	<b>(51,754)</b>	(61,057)	(50,489)
Cash flow from financing activities:			
Repurchase of common stock, net	(9,158)	—	—
Net proceeds from issuance of common stock	16,160	17,628	16,718
Net cash provided by financing activities	<b>7,002</b>	17,628	16,718
Net increase (decrease) in cash and cash equivalents	<b>18,957</b>	6,395	(651)
Beginning cash and cash equivalents	<b>60,344</b>	53,949	54,600
Ending cash and cash equivalents	<b>\$ 79,301</b>	\$ 60,344	\$ 53,949

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THIS STATEMENT.

**NOTE 1. NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES**

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

*Fiscal Reporting Period and Principles of Consolidation* The Company reports on a 52 or 53 week fiscal year, which ends on the Saturday closest to March 31. The fiscal year ended April 3, 1999 was a 53 week fiscal year. The accompanying consolidated financial statements include the accounts of Lattice Semiconductor Corporation and its wholly owned foreign subsidiaries, Lattice GmbH, Lattice Semiconducteurs SARL, Lattice Semiconductor KK, Lattice Semiconductor Shanghai Co., Ltd., Lattice Semiconductor Asia Ltd., Lattice Semiconductor International Ltd., Lattice Semiconductor UK Ltd. and Lattice Semiconductor AB. The assets, liabilities, and results of operations of these entities were not material for any of the years presented in the consolidated financial statements and all intercompany accounts and transactions have been eliminated.

*Cash Equivalents and Short-Term Investments* The Company considers all highly liquid investments, which are readily convertible into cash and have original maturities of three months or less, to be cash equivalents. Short-term investments, which are relatively less liquid and have maturities of less than one year, are composed of corporate auction preferred stocks (\$131.4 million), municipal and local government obligations (\$64.8 million), Federal agency obligations (\$16.9 million), time deposits (\$16.9 million) and commercial paper (\$10.1 million) at April 3, 1999.

The Company accounts for its short-term investments as held-to-maturity, which are stated at amortized cost with corresponding premiums or discounts amortized over the life of the investment to interest income. Amortized cost approximates market value at April 3, 1999.

*Financial Instruments* All of the Company's significant financial assets and liabilities are recognized in the Consolidated Balance Sheet as of April 3, 1999 and March 28, 1998. The carrying value of the Company's financial instruments approximate current market value except foundry equity investments in Taiwan which are either not readily marketable or where market prices are not necessarily indicative of

realizable value. The Company estimates the fair value of its cash and cash equivalents, short-term investments, accounts receivable, other current assets and current liabilities based upon existing interest rates related to such assets and liabilities compared to the current market rates of interest for instruments of similar nature and degree of risk.

*Derivative Financial Instruments* In order to minimize exposure to foreign exchange risk with respect to its long-term investments made with foreign currencies as further described in note 4 of notes to consolidated financial statements, the Company has at times entered into foreign forward exchange contracts in order to hedge these transactions. These contracts are accounted for as identifiable hedges against firm Company commitments. Realized gain or loss with respect to these contracts for the fiscal periods presented was not material. As of April 3, 1999, the Company had no open foreign exchange contracts for the purchase or sale of foreign currencies. The Company does not enter into derivative financial instruments for trading purposes.

*Foreign Exchange* The majority of the Company's silicon wafer purchases are denominated in Japanese yen. The Company maintains yen-denominated bank accounts and bills its Japanese customers in yen. The yen bank deposits utilized to hedge yen-denominated wafer purchases are accounted for as identifiable hedges against specific and firm wafer purchases. Gains or losses from foreign exchange rate fluctuations on unhedged balances denominated in foreign currencies are reflected in other income. Realized and unrealized gains or losses were not significant for the fiscal periods presented.

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



**Revenue Recognition and Accounts Receivable** Revenue from sales to OEM customers is recognized upon shipment. Certain of the Company's sales are made to distributors under agreements providing price protection and right of return on unsold merchandise. Revenue and cost relating to such distributor sales are deferred until the product is sold by the distributor and related revenue and costs are then reflected in income. Accounts receivable are shown net of allowance for doubtful accounts of \$881,000 and \$797,000 at April 3, 1999 and March 28, 1998, respectively.

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

**Long-Lived Assets** During the fiscal year ended March 29, 1997, the Company adopted Statement of Financial Accounting Standards No. 121 (SFAS 121), "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of," which requires the Company to review the impairment of long-lived assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The adoption of SFAS 121 did not have a material impact on the Company's financial condition or results of operations.

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

**Translation of Foreign Currencies** The Company translates accounts denominated in foreign currencies in accordance with SFAS 52, "Foreign Currency Translation." Translation adjustments related to the consolidation of foreign subsidiary financial statements have not been significant to date.

**Research and Development** Research and development costs are expensed as incurred.

**Stock-Based Compensation** The Company accounts for its employee and director stock options and employee stock purchase plan in accordance with provisions of Accounting Principles Board Opinion No. 25 ("APB 25"), "Accounting for Stock Issued to Employees." During 1995, the Financial Accounting Standards Board ("FASB") issued SFAS 123, "Accounting for Stock-Based Compensation." SFAS 123, effective for fiscal years beginning after December 31, 1995, provides an alternative to APB 25, but allows companies to account for employee and director stock-based compensation under the current intrinsic value method as prescribed by APB 25. The Company has continued to account for its employee and director stock plans in accordance with APB 25. Additional pro forma disclosures as required under SFAS 123 are presented in note 7 of notes to consolidated financial statements.

**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.

In February 1997, the FASB issued SFAS 128, "Earnings Per Share," which is effective for the Company for periods ending after December 15, 1997. Accordingly, the Company adopted this pronouncement in the quarter ended December 27, 1997. Primary net income per share as previously reported has been replaced by "basic net income per share" and "diluted net income per share." Prior period results have been restated to conform to the new presentation.

The most significant difference between basic and diluted net income per share is that basic net income per share does not treat potentially dilutive securities such as options and warrants as outstanding. For the Company, there is no difference between diluted net income per share and primary net income per share as previously reported. A reconciliation of the numerators and denominators of basic and diluted net income per share is presented below:

(IN THOUSANDS, EXCEPT FOR PER SHARE DATA)	YEAR ENDED		
	APRIL 3, 1999	MARCH 28, 1998	MARCH 29, 1997
Basic and diluted net income	<b>\$42,046</b>	\$56,567	\$45,005
Shares used in basic net income per share calculations	<b>23,487</b>	23,239	22,460
Dilutive effect of stock options and warrants	<b>332</b>	655	513
Shares used in diluted net income per share calculations	<b>23,819</b>	23,894	22,973
Basic net income per share	<b>\$ 1.79</b>	\$ 2.43	\$ 2.00
Diluted net income per share	<b>\$ 1.77</b>	\$ 2.37	\$ 1.96

**Statement of Cash Flows** Income taxes paid approximated \$16.4 million, \$23.1 million and \$22.6 million in fiscal 1999, 1998, and 1997, respectively. Interest paid does not differ materially from interest expense, which aggregated approximately \$273,000, \$83,000 and \$152,000 in fiscal 1999, 1998 and 1997, respectively.

**Use of Estimates** The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the fiscal periods presented. Actual results could differ from those estimates.



*New Accounting Pronouncements* In June 1997, the FASB issued SFAS 130, "Reporting Comprehensive Net Income." Under SFAS 130, the Company is required to report comprehensive income and its components in its consolidated financial statements, in addition to net income. For the Company, comprehensive income consists principally of net income. However, it also consists of translation of net assets held in foreign subsidiaries and other minor items. This portion of comprehensive income is included in the accompanying Consolidated Statement of Changes in Stockholders' Equity as "Other comprehensive income." The Company adopted this pronouncement in the first quarter of fiscal 1999.

Also in June 1997, the FASB issued SFAS 131, "Disclosures About Segments of an Enterprise and Related Information." This pronouncement, which supercedes SFAS 14, "Financial Reporting for Segments of a Business Enterprise", establishes standards for the way companies report information about operating segments for the fiscal years beginning after December 15, 1997. It also establishes standards for related disclosures about products and services, geographic areas and major customers. The Company adopted this pronouncement in fiscal 1999.

In March 1998, the AICPA issued Statement of Position ("SOP") 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use". In addition to prescribing accounting treatment for these costs, the SOP also provides guidance related to the accounting for costs incurred for software upgrades and enhancements. This pronouncement was adopted during fiscal 1999 and did not have a significant impact on the consolidated financial statements.

In June 1998, the FASB issued SFAS 133, "Accounting for Derivatives Instruments and Hedging Activities." SFAS 133 establishes new accounting treatment for derivatives and hedging activities and supercedes and amends a number of existing accounting standards. For the Company, this pronouncement will be effective in fiscal year 2002, and is not anticipated to have a material effect on the consolidated financial statements.

## NOTE 2. INVENTORIES

(IN THOUSANDS)	APRIL 3, 1999	MARCH 28, 1998
Work in progress	\$ 10,956	\$ 12,675
Finished goods	6,727	9,972
	<b>\$ 17,683</b>	<b>\$ 22,647</b>

## NOTE 3. PROPERTY AND EQUIPMENT

(IN THOUSANDS)	APRIL 3, 1999	MARCH 28, 1998
Land	\$ 2,099	\$ 2,098
Buildings	7,135	7,135
Construction in progress	18,768	6,750
Computer and test equipment	68,017	62,863
Office furniture and equipment	3,116	3,054
Leasehold and building improvements	2,643	2,547
	<b>101,778</b>	<b>84,447</b>
Accumulated depreciation and amortization	(56,785)	(47,777)
	<b>\$ 44,993</b>	<b>\$ 36,670</b>

## NOTE 4. FOUNDRY INVESTMENTS, ADVANCES AND OTHER ASSETS

(IN THOUSANDS)	APRIL 3, 1999	MARCH 28, 1998
Foundry investments and other assets	\$ 63,275	\$ 63,076
Wafer supply advances	51,262	51,262
	<b>\$114,537</b>	<b>\$114,338</b>

The Company entered into a series of agreements with United Microelectronics Corporation ("UMC") in September 1995 pursuant to which the Company agreed to join UMC and several other companies to form a separate Taiwanese corporation, ("UICC"), for the purpose of building and operating an advanced semiconductor manufacturing facility in Taiwan, Republic of China. Under the terms of the agreements, the Company invested approximately \$49.7 million between fiscal 1996 and fiscal 1998 for an approximate 10% equity interest in the corporation and the right to receive a percentage of the facility's wafer production at market prices. This investment is accounted for at cost.

In October 1997, the above joint venture foundry was substantially destroyed by fire. UMC, the majority owner of UICC, has informed the Company that this loss has been substantially recovered by an insurance settlement and additional investment income. Presently, the Board of UICC is considering options ranging from rebuilding the foundry to dissolving UICC. Management believes that UMC will continue to make alternative foundry capacity available to the Company. Considering these circumstances, management believes the UICC investment is not impaired. See note 13.

In July 1994, the Company signed an agreement with Seiko Epson Corporation ("Seiko Epson") and its affiliated U.S. distributor, Epson Electronics America, Inc. ("EEA"), under which it advanced \$44 million to be used to finance additional sub-micron wafer manufacturing capacity and technological development. The advance was completely repaid in the form of semiconductor wafers over a multi-year period ending in fiscal 1998.

In March 1997, the Company entered into a second advance payment production agreement with Seiko Epson and EEA under which it agreed to advance approximately \$85 million, payable upon completion of specific milestones, to Seiko Epson to finance construction of an eight-inch sub-micron semiconductor wafer manufacturing facility. Under the terms of the agreement, the advance is to be repaid with semiconductor wafers over a multi-year period. No interest income is recorded. The agreement calls for wafers to be supplied by Seiko Epson through EEA pursuant to purchase agreements with EEA. The Company also has an option under the agreement to advance Seiko Epson an additional \$60 million for additional wafer supply under similar terms. The first payment under this agreement, approximately \$17.0 million, was made during fiscal 1997. During fiscal 1998, the Company made two additional payments aggregating approximately \$34.2 million.

#### NOTE 5. LEASE OBLIGATIONS

Certain facilities and equipment of the Company are leased under operating leases, which expire at various times through fiscal 2001. Rental expense under the operating leases was approximately \$1,200,000, \$1,026,000 and \$984,000 for fiscal 1999, 1998 and 1997, respectively. Future minimum lease commitments at April 3, 1999 are as follows:

FISCAL YEAR	(IN THOUSANDS)
2000	\$1,203
2001	947
	<u>\$2,150</u>

#### NOTE 6. INCOME TAXES

The components of the provision for income taxes for fiscal 1999, 1998 and 1997 are presented in the following table:

(IN THOUSANDS)	YEAR ENDED		
	APRIL 3, 1999	MARCH 28, 1998	MARCH 29, 1997
Current:			
Federal	<b>\$18,678</b>	\$29,204	\$22,308
State	<b>1,468</b>	2,712	2,390
	<u><b>20,146</b></u>	<u>31,916</u>	<u>24,698</u>
Deferred:			
Federal	<b>93</b>	(2,539)	(1,829)
State	<b>7</b>	(236)	(196)
	<u><b>100</b></u>	<u>(2,775)</u>	<u>(2,025)</u>
	<u><b>\$20,246</b></u>	<u>\$29,141</u>	<u>\$22,673</u>

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

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

(IN THOUSANDS)	YEAR ENDED		
	APRIL 3, 1999	MARCH 28, 1998	MARCH 29, 1997
Computed income tax expense at the statutory rate	<b>\$21,802</b>	\$29,998	\$23,687
Adjustments for tax effects of:			
State taxes, net	<b>1,478</b>	2,402	2,048
Research and development credits	<b>(270)</b>	(154)	(62)
Nontaxable investment income	<b>(3,037)</b>	(3,009)	(2,579)
Other	<b>273</b>	(96)	(421)
	<u><b>\$20,246</b></u>	<u>\$29,141</u>	<u>\$22,673</u>

The components of the Company's net deferred tax asset are as follows:

(IN THOUSANDS)	APRIL 3, 1999	MARCH 28, 1998
Deferred income	<b>\$ 7,547</b>	\$ 7,934
Expenses and allowances not currently deductible	<b>8,508</b>	8,357
Total deferred tax assets	<b>16,055</b>	16,291
Valuation allowance	<b>(1,655)</b>	(1,791)
	<u><b>\$14,400</b></u>	<u>\$14,500</u>

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

#### NOTE 7. STOCKHOLDERS' EQUITY

*Common Stock* On June 12, 1998, the Company's Board of Directors authorized management to repurchase up to 1.2 million shares of the Company's common stock. As of April 3, 1999, the Company had repurchased 337,500 shares at an aggregate cost of approximately \$9.2 million.

*Stock Warrants* As of April 3, 1999, the Company has issued to a vendor warrants to purchase 633,192 shares of common stock. Of this amount, 464,125 warrants were issued and 340,500 exercised prior to fiscal 1997. During fiscal 1997, 67,419 warrants were issued and none were exercised. During fiscal 1998, a warrant was issued to purchase 51,550 shares of common stock, earned ratably from March 1997 through February 1998. Additionally, the vendor exercised warrants for 123,625 shares at an average exercise price of \$18.77 per share. During fiscal 1999, a warrant was issued to purchase 50,098 shares of common stock, earned ratably from March 1998 to February 1999.



*Stock Option Plans* As of April 3, 1999, the Company had reserved 2,000,000 and 5,775,000 shares of common stock for issuance to officers and key employees under the 1996 Stock Option Plan and 1988 Stock Option Plan, respectively. The 1996 Plan options generally vest over four years in increments as determined by the Board of Directors and have terms up to ten years. The 1988 Plan options are exercisable immediately and have terms up to ten years. The transfer of certain shares of common stock acquired through the exercise of 1988 Plan stock options is restricted under stock vesting agreements that grant the Company the right to repurchase unvested shares at the exercise price if employment is terminated. Generally, the Company's

repurchase rights lapse quarterly over four years.

The 1993 Directors' Stock Option Plan provides for the issuance of stock options to members of the Company's Board of Directors who are not employees of the Company; 225,000 shares of the Company's Common Stock are reserved for issuance thereunder. These options are granted at fair market value at the date of grant and generally become exercisable quarterly over a four year period beginning on the date of grant and expire five years from the date of grant.

The following table summarizes the Company's stock option activity and related information for the past three years:

	YEAR ENDED					
	APRIL 3, 1999		MARCH 28, 1998		MARCH 29, 1997	
(NUMBER OF SHARES IN THOUSANDS)	NUMBER OF SHARES UNDER OPTION	WEIGHTED- AVERAGE EXERCISE PRICE	NUMBER OF SHARES UNDER OPTION	WEIGHTED- AVERAGE EXERCISE PRICE	NUMBER OF SHARES UNDER OPTION	WEIGHTED- AVERAGE EXERCISE PRICE
Options outstanding at beginning of fiscal year	2,756	\$40.38	2,290	\$27.50	2,330	\$22.20
Options granted	1,688	31.96	983	63.13	827	30.82
Options canceled	(1,068)	58.82	(134)	39.78	(176)	28.31
Options exercised	(439)	23.08	(383)	21.76	(691)	13.31
Options outstanding at end of fiscal year	2,937	\$31.42	2,756	\$40.38	2,290	\$27.50

The following table summarizes information about stock options outstanding at April 3, 1999:

(NUMBER OF SHARES IN THOUSANDS)	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
	RANGE OF EXERCISE PRICES	NUMBER OF SHARES	WEIGHTED- AVERAGE REMAINING CONTRACT LIFE (IN YEARS)	WEIGHTED- AVERAGE EXERCISE PRICE	NUMBER OF SHARES
\$16.38 – \$28.13	729	1.03	\$25.77	513	\$24.81
\$31.00 – \$31.49	919	3.61	31.00	39	31.00
\$31.50 – \$32.88	911	2.35	31.56	333	31.63
\$33.56 – \$37.00	274	1.20	35.76	172	36.28
\$51.88 – \$66.25	104	2.46	62.05	36	62.66
	2,937	2.31	\$31.42	1,093	\$30.16

Effective November 10, 1998, the Company offered employees the choice of exchanging certain previously granted stock options for new stock options. The new stock options have an exercise price of \$31.00, the fair value of the Company's common stock on the effective date, and vest over four years from the effective date. As a result, approximately 941,970 options were exchanged. The exchanged stock options had a weighted average exercise price of \$61.46.

*Stock Purchase Plan* The Company's employee stock purchase plan was approved by the stockholders in August 1990, and became effective January 1, 1991. The plan permits eligible employees to purchase shares of common stock through payroll deductions, not to exceed 10% of the employee's compensation. The purchase price

of the shares is the lower of 85% of the fair market value of the stock at the beginning of each six-month period or 85% of the fair market value at the end of such period, but in no event less than the book value per share at the mid-point of each offering period. Amounts accumulated through payroll deductions during the offering period are used to purchase shares on the last day of the offering period. Of the 700,000 shares authorized to be issued under the plan, 64,009, 34,945 and 57,421 shares were issued during fiscal 1999, 1998 and 1997, respectively, and 208,855 shares were available for issuance at April 3, 1999.

*Pro forma Disclosures* The Company accounts for its stock options and employee stock purchase plan in conformity with APB 25 and has

adopted the additional proforma disclosure provisions of SFAS 123.

The fair value, as defined by SFAS 123, for stock options and employee stock plan purchase rights was estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions:

	GRANTS FOR YEARS ENDED		
	APRIL 3, 1999	MARCH 28, 1998	MARCH 29, 1997
Stock options:			
Expected volatility	43.9%	48.6%	46.4%
Risk-free interest rate	4.7%	5.6%	6.1%
Expected life from vesting date	1.3 years	1.2 years	0.9 years
Dividend yield	0%	0%	0%
Stock purchase rights:			
Expected volatility	43.6%	36.0%	36.7%
Risk-free interest rate	4.8%	5.9%	5.3%
Expected life	6 months	6 months	6 months
Dividend yield	0%	0%	0%

The Black-Scholes option pricing model was developed for use in estimating the fair value of freely tradable, fully transferable options without vesting restrictions. The Company's stock options have characteristics which significantly differ from those of freely tradable, fully transferable options. The Black-Scholes option pricing model also requires highly subjective assumptions, including expected stock price volatility and expected stock option term which greatly affect the calculated fair value of an option. The Company's actual stock price volatility and option term may be materially different from the assumptions used herein.

The resultant grant date weighted-average fair values calculated using the Black-Scholes option pricing model and the noted assumptions for stock options granted was \$10.37, \$25.20 and \$11.54, and for stock purchase rights \$9.53, \$12.30 and \$6.80, for fiscal 1999, 1998 and 1997, respectively.

For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting period. The Company's pro forma information is as follows:

(IN THOUSANDS, EXCEPT PER SHARE DATA)	YEAR ENDED		
	APRIL 3, 1999	MARCH 28, 1998	MARCH 29, 1997
Pro forma net income	\$32,425	\$48,777	\$40,681
Pro forma basic earnings per share	\$ 1.38	\$ 2.10	\$ 1.81
Pro forma diluted earnings per share	\$ 1.37	\$ 2.05	\$ 1.78

Because the SFAS 123 pro forma disclosure applies only to options granted subsequent to April 1, 1995, its pro forma effect will not be fully reflected until subsequent years. The effects on pro forma disclosures of applying SFAS 123 are not likely to be representative of the effects on pro forma disclosures in future years.

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

#### NOTE 8. TRANSACTIONS WITH PRINCIPAL SUPPLIERS

The majority of the Company's silicon wafers are currently manufactured by Seiko Epson in Japan and are sold to the Company through Seiko Epson's affiliated U.S. distributor, EEA. In connection with the series of agreements entered into with UMC as described in note 4 of notes to consolidated financial statements, the Company currently receives production wafers. A significant interruption in supply from Seiko Epson through EEA, or from UMC, would have a material adverse effect on the Company's business.

The Company has signed two advance payment production agreements with Seiko Epson and EEA, in July 1994 and March 1997, respectively, under which it has advanced or will advance cash to be used in conjunction with the construction of additional wafer capacity, with the advances being repaid in the form of semiconductor wafers over a multi-year period. These transactions are more fully described in note 4 of notes to consolidated financial statements.

The Company continues to purchase a portion of its wafer supply from Seiko Epson for cash using commercial terms. Wafer purchases totaled \$20.8 million, \$20.9 million and \$22.8 million for fiscal 1999, 1998 and 1997, respectively. Accounts payable and accrued expenses at April 3, 1999 and March 28, 1998 include \$3.4 and \$4.5 million, respectively, due this vendor. Open purchase commitments to this vendor approximated \$9.2 million at April 3, 1999.

**NOTE 9. EMPLOYEE BENEFIT PLANS**

*Profit Sharing Plan* The Company initiated a profit sharing plan effective April 1, 1990. Under the provisions of this plan, as approved by the Board of Directors, a percentage of the operating income of the Company, as defined and calculated at the end of the second and fourth quarter of each fiscal year for each respective six-month period, is paid equally to qualified employees. In fiscal 1999, 1998 and 1997, approximately \$2.1 million, \$3.0 million and \$2.4 million, respectively, were charged against operations in connection with the plan.

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

**NOTE 10. COMMITMENTS AND CONTINGENCIES**

The Company is exposed to certain asserted and unasserted potential claims. Patent and other proprietary rights infringement claims are common in the semiconductor industry. There can be no assurance that, with respect to potential claims made against the Company, the Company could obtain a license on terms or under conditions that would not have a material adverse effect to the Company.

**NOTE 11. RELATED PARTY**

Larry W. Sonsini is a member of the Company's Board of Directors and is presently the Chairman of the Executive Committee of Wilson Sonsini Goodrich & Rosati, a law firm that provides corporate legal services to the Company. Legal services billed to the Company aggregated approximately \$61,000, \$51,000 and \$61,000, respectively, for fiscal 1999, 1998 and 1997. Amounts payable to the law firm were not significant at April 3, 1999 or March 28, 1998.

**NOTE 12. SEGMENT AND GEOGRAPHIC INFORMATION**

The Company operates in one industry segment comprising the design, development, manufacture and marketing of high performance programmable logic devices. The Company's sales by major geographic area were as follows:

(IN THOUSANDS)	YEAR ENDED		
	APRIL 3, 1999	MARCH 28, 1998	MARCH 29, 1997
United States	\$100,778	\$120,278	\$104,249
Export sales:			
Europe	53,649	61,243	39,863
Asia	34,680	55,853	52,624
Other	10,965	8,520	7,353
	<b>99,294</b>	125,616	99,840
	<b>\$200,072</b>	\$245,894	\$204,089

More than 90% of the Company's property and equipment is located in the United States. Other long-lived assets located outside the United States consist primarily of the foundry investments and advances described in note 4 of notes to consolidated financial statements.

No individual customer accounted for more than 10% of revenue in fiscal 1999, 1998 or 1997. No export sales to customers or distributors of any individual country accounted for more than 10% of revenue in fiscal 1999, 1998 or 1997.

**NOTE 13. SUBSEQUENT EVENTS**

On April 21, 1999, the Company announced a definitive agreement to acquire Vantis Corporation, a wholly owned subsidiary of Advanced Micro Devices, Inc. ("AMD"), for \$500 million in cash, including the assumption of an estimated \$60 million in net assets. This acquisition was completed June 15, 1999 and was financed with approximately \$250 million in existing cash and \$250 million in bank borrowings. Vantis Corporation designs, develops and markets programmable logic devices. The acquisition will be accounted for as a purchase.

In June 1999, the Boards of UMC and UICC (see note 4) voted to merge UICC into UMC. The matter is scheduled for a shareholder vote in July 1999. The Company is assured by UMC that capacity rights will be preserved after the proposed merger.



To the Board of Directors and Stockholders of  
Lattice Semiconductor Corporation

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of operations, of changes in stockholders' equity and of cash flows present fairly, in all material respects, the financial position of Lattice Semiconductor Corporation and its subsidiaries at April 3, 1999 and March 28, 1998, and the results of their operations and their cash flows for each of the three years in the period ended April 3, 1999, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with

generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

*Princeton Mutual Services LLP*

Portland Oregon,

April 21, 1999, except as to Note 13, which is as of June 15, 1999

## BOARD OF DIRECTORS

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

Mark O. Hatfield  
Former U.S. Senator

Daniel S. Hauer<sup>1</sup>  
Consultant to EEA  
Electronics America, Inc.

Harry A. Merlo<sup>1,2</sup>  
President,  
Merlo Corporation

Douglas C. Strain<sup>2</sup>  
Vice Chairman and Founder,  
Electro Scientific Industries, Inc.

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

## OFFICERS

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

Steven A. Laub  
Senior Vice President and Chief  
Operating Officer

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

Stephen M. Donovan  
Corporate Vice President, Sales

Jonathan K. Yu  
Corporate Vice President,  
Business Development

Randy D. Baker  
Vice President, Manufacturing

Martin R. Baker  
Vice President and General Counsel

Albert L. Chan  
Vice President and General Manager  
Lattice Silicon Valley

Thomas J. Kingzett  
Vice President, Reliability and  
Quality Assurance

Stanley J. Kopec  
Vice President, Corporate Marketing

Rodney F. Sloss  
Vice President, Finance

Kenneth K. Yu  
Vice President and Managing Director,  
Lattice Asia

Technology Advisor to the  
Office of the President

## CORPORATE HEADQUARTERS

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## LEGAL COUNSEL

Wilson, Sonsini, Goodrich & Rosati  
Palo Alto, California

## INDEPENDENT ACCOUNTANTS

PricewaterhouseCoopers LLP  
Portland, Oregon

## REGISTRAR AND TRANSFER AGENT

ChaseMellon Shareholder Services, L.L.C.

Shareholder Relations  
P.O. Box 3315  
South Hackensack, NJ 07606  
or

85 Challenger Road  
Ridgefield Park, NJ 07660  
(800) 522-6645

TDD for Hearing Impaired:  
(800) 231-5469

Foreign Shareholders: (201) 329-8660

TDD Foreign Shareholders  
(201) 329-8354

Website Address:  
[www.chasemellon.com](http://www.chasemellon.com)

## ANNUAL MEETING

The annual meeting of stockholders  
for Lattice Semiconductor Corporation  
will be held at the Embassy Suites  
Hotel, 9000 S.W. Washington Square  
Road, Tigard, Oregon 97223 on  
Monday, August 9, 1999, at 1:00 PM.

## FORM 10-K

Financial information including the  
Company's Annual Report on Form  
10-K as filed with the Securities and  
Exchange Commission, and on  
quarterly operating results, is available  
by accessing our investor relations web  
site located at <http://www.lsc.com> or  
on request by telephoning the Lattice  
shareholder relations department.

## COMMON STOCK

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

## STOCK PRICE HISTORY

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

	Low	High
Fiscal 1998:		
First Quarter	41 <sup>1</sup> / <sub>2</sub>	62 <sup>5</sup> / <sub>8</sub>
Second Quarter	54 <sup>7</sup> / <sub>8</sub>	74 <sup>1</sup> / <sub>2</sub>
Third Quarter	45	67 <sup>1</sup> / <sub>2</sub>
Fourth Quarter	39 <sup>3</sup> / <sub>4</sub>	57
Fiscal 1999:		
First Quarter	25 <sup>5</sup> / <sub>8</sub>	54 <sup>5</sup> / <sub>8</sub>
Second Quarter	23 <sup>1</sup> / <sub>4</sub>	36 <sup>5</sup> / <sub>8</sub>
Third Quarter	18 <sup>7</sup> / <sub>8</sub>	46 <sup>1</sup> / <sub>2</sub>
Fourth Quarter	37 <sup>3</sup> / <sub>4</sub>	56 <sup>5</sup> / <sub>16</sub>

<sup>1</sup> MEMBER OF THE AUDIT COMMITTEE

<sup>2</sup> MEMBER OF THE COMPENSATION COMMITTEE



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