LATTICE SEMICONDUCTOR CORP
Form DEF 14A
April 08, 2004

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SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant ý

Filed by a Party other than the Registrant o

Check the appropriate box:

o Preliminary Proxy Statement

o **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

ý Definitive Proxy Statement

o Definitive Additional Materials

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LATTICE SEMICONDUCTOR CORPORATION

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

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o Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.

(1) Title of each class of securities to which transaction applies:

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(3) Filing Party:

(4) Date Filed:

April 8, 2004

TO OUR STOCKHOLDERS:

You are cordially invited to attend the annual meeting of the stockholders of Lattice Semiconductor Corporation, which will be held on Tuesday, May 11, 2004 at 1 p.m., at our Corporate Headquarters, 5555 NE Moore Court, Hillsboro, Oregon, 97124-6421.

The attached Notice of Annual Meeting of Stockholders and Proxy Statement describe the matters to be acted upon at the meeting. Included with the Proxy Statement is a copy of our 2003 Annual Report to Stockholders on SEC Form 10-K. Also included is a proxy card for you to record your vote and a return envelope for your proxy card.

It is important that your shares be represented and voted at the meeting whether or not you plan to attend. Therefore, we urge you to vote your shares by signing and dating the enclosed proxy card and returning it in the envelope provided.

Sincerely,

Cyrus Y. Tsui
Chairman and Chief Executive Officer

Whether or not you plan to attend the meeting, please vote your shares by signing and dating the enclosed proxy card and returning it in the envelope provided. If you receive more than one proxy card because you own shares that are registered differently, then please vote all of your shares shown on all of your proxy cards following the instructions listed on each of the individual proxy cards. Thank you.

5555 NE Moore Court
Hillsboro, Oregon 97124-6421

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

May 11, 2004

TO OUR STOCKHOLDERS:

The Annual Meeting of Stockholders of Lattice Semiconductor Corporation will be held at our Corporate Headquarters, 5555 NE Moore Court, Hillsboro, Oregon, 97124-6421, on Tuesday, May 11, 2004, at 1:00 p.m., Pacific Time, for the following purposes:

1. To elect two Class III directors, each for a term of three years;

2. To approve an amendment to the 1990 Employee Stock Purchase Plan increasing the number of shares reserved for issuance thereunder;

3. To ratify the appointment of PricewaterhouseCoopers LLP as our independent auditor for the fiscal year ending January 1, 2005; and

4. To transact such other business as may properly come before the meeting.

Only stockholders of record at the close of business on March 18, 2004 are entitled to vote at the meeting or any adjournment thereof.

All stockholders are invited to attend the meeting in person. **Whether or not you plan to attend the meeting, to assure your representation at the meeting, please promptly sign and return the accompanying proxy card in the enclosed return envelope.** Any stockholder of record attending the meeting may vote in person even if he or she has returned a proxy.

By Order of the Board of Directors

Stephen A. Skaggs
Secretary

Hillsboro, Oregon
April 8, 2004

5555 NE MOORE COURT
HILLSBORO, OREGON 97124-6421

PROXY STATEMENT FOR ANNUAL MEETING OF STOCKHOLDERS

INFORMATION CONCERNING SOLICITATION AND VOTING

General

Our board of directors is soliciting proxies to be used at the 2004 annual meeting of stockholders to be held at our Corporate Headquarters, 5555 NE Moore Court, Hillsboro, Oregon, 97124-6421 on Tuesday, May 11, 2004, at 1:00 p.m., Pacific Time, or at any adjournment thereof.

This proxy statement, the accompanying proxy card and our Annual Report on Form 10-K were mailed on or about April 8, 2004, to all stockholders entitled to vote at the meeting.

Who Can Vote

Record holders of common stock at the close of business on March 18, 2004, may vote at the meeting. On March 18, 2004, 113,114,663 shares of common stock were outstanding. Each stockholder has one vote for each share of common stock owned as of the record date. The common stock does not have cumulative voting rights.

How To Vote

Stockholders may vote their shares in person by attending the annual meeting. Stockholders may also vote by mail by signing, dating and mailing the enclosed proxy card. The proxy holders will vote your shares in accordance with the instructions on your proxy card. Stockholders who hold their shares through a bank or broker should vote their shares in the manner prescribed by the bank or broker. If you do not specify how to vote your shares on your proxy card, we will vote them (i) for each of the nominees for director named herein, (ii) to approve an amendment to the 1990 Employee Stock Purchase Plan increasing the number of shares reserved for issuance thereunder, (iii) for ratification of PricewaterhouseCoopers LLP as our independent auditor for fiscal 2004 and (iv) in accordance with the recommendations of our board of directors, or, if no recommendation is given, in the discretion of the proxy holders, on any other business that may properly come before the meeting or any adjournment or adjournments thereof.

Revoking Your Proxy

You may revoke your proxy at any time before it is exercised by:

- sending a written notice of revocation to the Secretary of Lattice;
- submitting a properly signed proxy with a later date; or
- voting in person at the meeting.

Quorum; Abstentions; Broker Non-Votes

A majority of the shares of common stock issued and outstanding on March 18, 2004, present in person at the meeting or represented at the meeting by proxy, will constitute a quorum. Shares that are voted "FOR", "AGAINST", "ABSTAIN" or "WITHHELD" from a proposal are treated as being present at the meeting for purposes of establishing a quorum.

The total number of votes that could be cast at the meeting is the number of votes actually cast plus the number of abstentions. Abstentions are counted as "shares present" at the meeting for

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purposes of determining whether a quorum exists and have the effect of a vote "against" any matter as to which they are specified. Proxies submitted by brokers that do not indicate a vote for some or all of the proposals because they do not have discretionary voting authority and have not received instructions as to how to vote on those proposals (so-called "broker non-votes") are counted as present and entitled to vote and are, therefore, included for purposes of determining whether a quorum is present at the Annual Meeting; however, "broker non-votes" are not deemed to be "votes cast." As a result, "broker non-votes" are not included in the tabulation of the voting results on the election of directors or issues requiring approval of a majority of the votes cast and, therefore, do not have the effect of votes against the proposal.

PROPOSAL 1: ELECTION OF DIRECTORS

Our board of directors is divided into three classes. Directors are elected to serve staggered three-year terms, such that the term of one class of directors expires each year. Classes consist of one or two directors. Pursuant to action by the nominating and governance committee of the board of directors, the company will be nominating two Class III directors, named below, at the meeting to three-year terms ending in 2007. We will vote your shares as you specify when providing your proxy. If you do not specify how you want your shares voted when you provide your proxy, we will vote them for the election of the nominees listed below. If unforeseen circumstances (such as death or disability) make it necessary for the board of directors to substitute another person for the nominee, we will vote your shares for that other person.

The following table briefly describes the nominees for director and the directors whose terms will continue. Except as otherwise noted, each has held his or her principal occupation for at least five years. There are no family relationships among any of our directors or officers.

Nominee	Age	Principal Occupation and Other Directorships	Director Since	Current Term Expires	Class
Mark O. Hatfield	81	Distinguished Professor, Portland State University (since 1997); Distinguished Professor, George Fox University (since 1997); Adjunct Professor, Lewis & Clark College (since 2000); former United States Senator from Oregon (until January 1997).	1997	2004	III
Cyrus Y. Tsui	58	Our Chairman and Chief Executive Officer.	1988	2004	III
Continuing Directors					
Harry A. Merlo	78	President of Merlo Corporation, a holding company (since July 1995); President and Chairman of the Board of Louisiana-Pacific Corporation, a building materials company (until June 1995).	1983	2005	I
Daniel S. Hauer	67	Business consultant (since November 1998); Chairman of the Board of Epson Electronics America, a supplier of CMOS integrated circuits and silicon wafers (until November 1998).	1987	2006	II
Soo Boon Koh	53	Managing Partner of iGlobe Partners Fund, L.P. (since October 1999); Sr. Vice President and Deputy General Manager of Vertex Management Pte, Ltd. (until June 1999).	2000	2006	II

Required Vote

The two nominees receiving the highest number of affirmative votes of the votes cast at the meeting on this matter shall be elected as the Class III directors.

THE BOARD OF DIRECTORS RECOMMENDS THAT THE STOCKHOLDERS VOTE "FOR" THE ELECTION OF MARK O. HATFIELD AND CYRUS Y. TSUI AS THE CLASS III DIRECTORS OF THE COMPANY.

The board has determined that each of the directors except the chairman of the board, Mr. Tsui, is independent within the meaning of the rules and regulations of the Securities and Exchange Commission ("SEC") and the Nasdaq Stock Market, Inc. ("Nasdaq") director independence standards, as currently in effect. Furthermore, the board has determined that each of the members of each of the committees of the board is "independent" within the meaning of the rules and regulations of the SEC and the Nasdaq director independence standards, as currently in effect.

Annual Meeting Attendance

Although we do not have a formal policy regarding attendance by members of the board at our annual meetings of stockholders, directors are encouraged to attend. Six of seven directors attended the last annual meeting of stockholders.

Board Meetings and Committees

In 2003 the board of directors held a total of five meetings. Each of our current directors attended or participated in more than 75% of the aggregate of (i) the total number of meetings of the board of directors and (ii) the total number of meetings held by all committees of the Board on which such director served.

Our board of directors currently has three standing committees: the audit committee, the compensation committee and the nominating and governance committee. Each of the committees operates under a written charter adopted by the board.

Audit Committee

The company has a separately designated standing audit committee established in accordance with Section 3(a)(58)(A) of the Securities Exchange Act of 1934, as amended. The audit committee oversees the accounting and financial reporting process and the external audit process of the company and assists the board of directors in the oversight and monitoring of (i) the integrity of the financial statements of the company, (ii) the internal accounting and financial controls of the company, (iii) compliance with legal and regulatory requirements, and (iv) the qualifications, performance and independence of the company's independent auditor. In this capacity, the audit committee is responsible for appointing, compensating, and overseeing the work of the independent auditor. In addition, the audit committee reviews and approves, in advance, all work performed by the independent auditor. The audit committee meets with management and our independent auditor, who have access to the audit committee without the presence of management representatives.

During 2003, the audit committee was composed of Mr. Hatfield, Mr. Merlo and Ms. Koh and met twice. Our board of directors has determined that, based upon his prior work experience and his tenure and experience on the company's audit committee, Mr. Merlo qualifies as an "Audit Committee Financial Expert" as this term has been defined under the rules and regulations of the SEC.

The charter of the audit committee is attached to this proxy statement as Appendix A and is also available on our website at http://www.latticesemi.com/investors/governance/index.cfm.

Compensation Committee

The compensation committee evaluates and makes recommendations to the board of directors regarding the salary and incentive compensation of our chief executive officer and evaluates and approves the compensation of our other executive officers based upon the recommendations of our chief executive officer. The committee also administers our employee stock option plans and other compensation issues. During 2003, the compensation committee was composed of Mr. Hatfield and Mr. Hauer and met once and acted by written consent four times.

The charter of the compensation committee is attached to this proxy statement as Appendix B and is also available on our website at http://www.latticesemi.com/investors/governance/index.cfm.

Nominating and Governance Committee

A nominating and governance committee was established in 2003, composed of Mr. Merlo, Mr. Hatfield, Mr. Hauer, and Ms. Koh. The nominating and governance committee met twice in 2003. This committee identifies persons for future nomination for election to the board of directors and to fill vacancies on the board, reviews and evaluates the performance of the board of directors and each committee of the board, makes recommendations to the board for nominees to the committees of the board, and develops and recommends to the board a set of corporate governance principles for the company.

The nominating and governance committee believes that each company director should have certain minimum personal qualifications, including the following:

- professional competence and expertise that is useful to the company;
- the desire and ability to serve as a director, and to devote the time and energy required to fulfill the responsibilities of the position successfully;
- judgment, experience, and temperament appropriate for a director; and
- personal and professional honesty and integrity of the highest order.

The committee evaluates candidates for nomination on the basis of their individual qualifications, and also on the basis of how such individuals would fill a need on the board of directors. Factors in such determination include:

- the current size and composition of the board;
- the independence of the board and its committees;
- the presence on the board of individuals with expertise in areas useful to the company;
- the diversity of individuals on the board, including their personal characteristics, experiences and backgrounds;
- the number of other boards on which the candidate serves; and
- such other factors as the committee or the board consider significant.

The nominating and governance committee will consider candidates for our board of directors suggested by its members, other members of the board of directors, our senior management, individuals personally known to members of our board and our stockholders. From time to time the committee may solicit proposals for candidates from interested constituencies, or may use paid third party search firms to identify candidates. The committee evaluates candidates in the same manner regardless of how such candidates are brought to the attention of the committee.

Stockholders who wish to submit names of candidates for our board of directors to the nominating and governance committee for consideration should do so in writing to the nominating and governance committee, c/o Secretary, Lattice Semiconductor Corporation, 5555 NE Moore Court, Hillsboro, Oregon 97124-6421, and should include the following information:

- A statement that the writer is a stockholder and is proposing a candidate for consideration by the committee;
- The name and contact information for the candidate;

- A statement of the candidate's occupation and background, including education and business experience;

Information regarding each of the factors listed above, sufficient to enable the committee to evaluate the candidate;

A statement detailing (i) any relationship or understanding between the candidate and the company, or any customer, supplier, competitor, or affiliate of the company; and (ii) any relationship or understanding between the candidate and the stockholder proposing the candidate for consideration, or any affiliate of such stockholder; and

A statement that the candidate is willing to be considered for nomination by the committee and willing to serve as a director if nominated and elected.

Additional information may be requested by the committee as appropriate.

In addition, our bylaws permit stockholders to nominate individuals to stand for election to our board of directors at an annual stockholders meeting. Stockholders wishing to submit nominations must notify us of their intent to do so on or before the date specified under "Stockholder Proposals Other Stockholder Proposals and Director Nominations." Such notice must include the information specified in our bylaws, a copy of which is available from our corporate secretary upon written request.

The charter of the nominating and governance committee is attached to this proxy statement as Appendix C and is also available on our website at http://www.latticesemi.com/investors/governance/index.cfm.

Communications with the Board

Although we do not have a formal policy regarding communications with the board of directors, stockholders may communicate with the board of directors by writing to us c/o Secretary, Lattice Semiconductor Corporation, 5555 NE Moore Court, Hillsboro, Oregon 97124-6421. Stockholders who would like their submission directed to a member of the board of directors may so specify, and the communication will be forwarded, as appropriate.

Directors' Compensation

Directors who are also our employees (currently Mr. Tsui) receive no additional or special compensation for serving as directors. Each non-employee director receives an annual retainer of $20,000 plus $1,500 for each board meeting and $1,000 for each committee meeting they attend.

Non-employee directors also receive options to purchase shares of our common stock. Director options were issued in 2003 under our 2001 Outside Directors' Stock Option Plan (the "2001 Plan"), which provides for automatic grants of stock options to non-employee directors. Under the 2001 Plan, new non-employee directors receive a grant of 72,000 shares upon initial appointment to the board. These shares generally vest quarterly over a four-year period and expire ten years from the grant date. In addition, each non-employee director receives a subsequent grant of 18,000 shares per year. These shares generally vest quarterly over a one year period beginning three years after the grant date and expire ten years from the grant date. In 2003, each non-employee director received a grant of 18,000 shares.

Legal Services

Larry W. Sonsini, one of our former directors who resigned from our board in 2004, is a member of Wilson Sonsini Goodrich & Rosati, Professional Corporation, a law firm based in Palo Alto, California, and chairman of the firm's Executive Management Committee. This firm serves as our primary outside legal counsel. We believe that the services rendered to us by Wilson Sonsini

Goodrich & Rosati were on terms no less favorable to us than could have been obtained from unaffiliated third parties.

Employment Agreements

In September 1988, we entered into an employment letter with Mr. Tsui pursuant to which Mr. Tsui serves as Chief Executive Officer. In addition to providing for an annual base salary and bonus arrangements, the letter provides that in the event of a change in control of Lattice, any unvested options to purchase our common stock held by Mr. Tsui shall become fully vested. Additionally, in the event Mr. Tsui is involuntarily terminated, other than for cause, we must continue to pay his salary for up to six months, or until Mr. Tsui begins employment elsewhere, whichever occurs sooner, and options vesting during that period are exercisable.

Audit and Related Fees

Under its charter the audit committee reviews and pre-approves all audit and permissible non-audit services performed by PricewaterhouseCoopers LLP as well as the fees charged by PricewaterhouseCoopers LLP for such services. In its review of non-audit services, the audit committee considered whether the provision of such services is compatible with maintaining the independence of PricewaterhouseCoopers LLP. The following table sets forth the aggregate fees billed by PricewaterhouseCoopers LLP in connection with the following services during 2003 and 2002:

	2003	2002
Audit Fees(1)	$ 424,400	$ 101,895
Audit-Related Fees(2)	114,300	313,700
Tax Fees(3)	85,465	112,447
All other fees(4)	1,400	7,351
Total fees	$ 625,565	$ 535,393

(1) This category includes fees for services rendered for the audit of the annual financial statements included in our Annual Report on Form 10-K, and review of the quarterly financial statements included in our quarterly reports on Form 10-Q.

(2) This category includes fees for services relating to mergers and acquisitions, audit of employee benefit plans, and fees for other statutory filings and audits, issuance of consents and assistance with and review of documents filed with the SEC.

(3) This category includes fees for tax compliance, planning, and advice.

(4) This category includes fees for assistance relating to foreign subsidiaries and other services.

The audit committee has determined that the provision of services rendered above for non-audit services is compatible with maintaining the independence of PricewaterhouseCoopers LLP.

Audit Committee Report

The responsibilities of the audit committee are fully described in the audit committee charter, a copy of which is attached to this proxy statement as Appendix A. Management is responsible for maintaining our financial controls and preparing our financial reports. Our independent auditor is responsible for performing an independent audit of our consolidated financial statements in accordance with generally accepted auditing standards and for issuing an audit report. The audit committee's responsibility is to execute the audit committee charter and oversee these processes. In fulfilling its responsibilities, the audit committee has reviewed and discussed the audited financial statements contained in our 2003 Annual Report with management and our independent auditor.

The audit committee discussed with our independent auditor matters required to be discussed by the Statement on Auditing Standards No. 61, "Communication with Audit Committees". In addition, the audit committee discussed with our independent auditor their independence from Lattice and our management, including the written disclosures and the letter submitted to the audit committee by our independent auditor as required by the Independent Standards Board Standard No. 1, "Independence Discussions with Audit Committees".

In January 2004, the audit committee, with the assistance of independent outside legal counsel and our independent auditor, commenced an internal investigation of the facts and circumstances surrounding inappropriate journal entries affecting the deferred income and accrued expense accounts. As a result of the investigation, it was determined that the unaudited consolidated condensed financial statements for each of the three month periods ended September 30, 2003, June 30, 2003 and March 31, 2003 required restatement. In addition, the audit committee has recommended the adoption of certain internal control and system enhancements. Management has already implemented certain of these internal control and systems enhancements and is currently implementing other audit committee directives that resulted from its investigation. For a more complete discussion of this process and results, see our Annual Report on Form 10-K for the year ended January 3, 2004 that accompanies the proxy statement of which this report is a part.

Based upon the audit committee's discussions with management and our independent auditor and the audit committee's review of the representations of management and the report of our independent auditor, the audit committee recommended that the board of directors include the audited consolidated financial statements in our Annual Report on Form 10-K for the year ended January 3, 2004 for filing with the Securities and Exchange Commission.

Audit Committee
Harry A. Merlo, Chairman
Mark O. Hatfield
Soo Boon Koh

Compensation Committee Interlocks and Insider Participation

The members of our compensation committee during 2003 were Mr. Hatfield and Mr. Hauer. Neither Mr. Hatfield nor Mr. Hauer was or is one of our officers or employees. None of our executive officers serves as a member of the board of directors or compensation committee of any entity that has one or more executive officers serving as a member of our board of directors or compensation committee.

Report of the Compensation Committee

The compensation committee, comprised of non-employee directors, sets, reviews and administers our executive compensation program. The role of the compensation committee is to evaluate and make recommendations to the board of directors regarding the salary and incentive compensation of our chief executive officer and evaluate and approve the compensation of our other executive officers based upon the recommendation of our chief executive officer. The committee also administers our employee stock option plans, and reviews and approves stock option grants to all our employees.

Compensation Philosophy. Our compensation philosophy is that cash incentive compensation of executive officers should be directly linked to our short-term performance while longer-term incentives, such as stock options, should be aligned with the objective of enhancing stockholder value over the long term. We believe the use of stock options strongly links the interests of our officers and employees to the interests of our stockholders. In addition, we believe that our total compensation packages must

be competitive with other companies in our industry to ensure that we can continue to attract, retain and motivate the senior managers who we believe are critical to our long-term success.

Components of Executive Compensation. The principal components of executive compensation are base salary, the Executive Incentive Plan and stock options.

Base salaries are set based on competitive factors and the historic salary structure for various levels of responsibility within Lattice. The compensation committee periodically conducts surveys of companies in our industry in order to determine whether our executive base salaries are in a competitive range. Generally, salaries are set at the middle to high end of this range. In addition, we rely on variable incentive compensation in order to emphasize the importance of short-term performance.

Our Executive Incentive Plan is a bonus plan linked directly to our profitability. This plan in particular emphasizes our belief that, when we are successful, our executives should be highly compensated, but that, conversely, if we are unsuccessful and not profitable, no bonuses should be paid absent extraordinary circumstances. The total bonus pool determined under the plan is based directly on our operating profit, excluding charges associated with one-time in-process research and development and amortization of intangible assets. With respect to our chief executive officer, an individual bonus is determined by formula based on the total bonus pool and his base salary. With respect to other executives, individual cash bonuses are determined by formula based on the total bonus pool, individual base salary and individual performance relative to key objectives as determined by the chief executive officer. The compensation committee may withhold or delay payment of bonuses due to business conditions or other relevant considerations. No bonuses have been paid under the Executive Incentive Plan since 2001.

The principal equity component of executive compensation is our employee stock option program. Stock options are generally granted when an executive joins us and on an annual basis thereafter under a replenishment program. Initial stock option grants vest over a period of four years. The purpose of the annual replenishment program is to ensure that our executives always have options that vest in increments over a subsequent four-year period. Stock options are also occasionally granted for promotions or other special achievements. Stock options provide a means of retention and motivation for our executives and also align their interests with long-term stock price appreciation. In addition, executives are eligible to participate in a payroll deduction employee stock purchase plan. Under this plan, available to all domestic employees, company stock may be purchased at 85% of the fair market value at the beginning or end of a six month offering period, whichever is less (up to a maximum of $25,000 worth of stock per calendar year or 10% of salary, whichever is less).

Executives also participate in our profit sharing plan. Under this plan, a specified percentage of operating profit, excluding charges associated with amortization of intangible assets, is set aside and distributed among all domestic employees based on tenure. For 2003, no distributions were made under our profit sharing plan. Other elements of executive compensation include participation in a company-wide life insurance program, supplemental life insurance, long-term disability insurance, company-wide medical benefits and the ability to defer compensation pursuant to both a company-wide 401(k) plan and an executive deferred compensation plan. We made discretionary contributions to the company-wide 401(k) plan of up to 5% of participating employee's eligible base pay until July of 2001, at which time these discretionary contributions were suspended.

Other Compensation Considerations. The compensation committee has studied Section 162(m) of the Internal Revenue Code and related regulations of the Internal Revenue Service, which restrict the deductibility of executive compensation paid to any of our five most highly-paid executive officers at the end of any fiscal year to the extent that such compensation exceeds $1 million in any year and does not qualify for an exemption under the statute or related regulations. We have qualified our 1996 Stock Incentive Plan and our 2001 Stock Plan as performance based plans and therefore compensation

realized in connection with exercises of options and payment of certain performance bonuses granted under these plans is exempt under the Internal Revenue Code. To maintain flexibility in compensating executive officers in a manner designed to promote varying corporate goals, the compensation committee has not adopted a policy that all compensation must be tax deductible.

Chief Executive Officer Performance and Compensation. The compensation committee reviewed the performance of the chief executive officer based upon the compensation philosophy and specific compensation components described above. Because the company's financial performance in 2003 did not meet expectations, Mr. Tsui did not receive a raise in base salary or a bonus in 2003. However, pursuant to our philosophy of retaining and motivating our executives and aligning their interests with long-term stock appreciation, Mr. Tsui received a stock option grant in 2003 and participated in the 2003 Stock Option Exchange Program.

Compensation Committee
Mark O. Hatfield, Chairman
Daniel S. Hauer

EXECUTIVE COMPENSATION

Summary of Compensation

The following table provides certain summary information concerning compensation paid to or accrued for our Chief Executive Officer and each of our four other most highly compensated executive officers during fiscal 2003 who were serving as executive officers at the end of fiscal 2003, and a former executive officer who would have been one of our four other most highly compensated executive officers during fiscal 2003 had he remained an executive officer at the end of fiscal 2003 (our "named executive officers"), for each of the last three completed fiscal years.

SUMMARY COMPENSATION TABLE

		Annual Compensation		Long-Term Compensation	
Name and Principal Position	**Fiscal Year**	**Salary(1)**	**Bonus(2)**	**Stock Option Grants (# of Shares)**	**All Other Compensation**
Tsui, Cyrus Y.	2003	$ 659,361	$ 0	1,864,072(5)	$ 42,276(6)
CEO	2002	$ 646,920	$ 0	525,000	$ 41,539(7)
	2001	$ 646,920	$ 600,000	768,375	$ 41,853(8)
Skaggs, Stephen A.	2003	$ 259,904	$ 0	597,086(5)	$ 8,709(6)
President	2002	$ 255,000	$ 0	160,000	$ 3,529(7)
	2001	$ 253,038	$ 190,000	204,900	$ 6,187(8)
Johannessen, Jan	2003	$ 215,418	$ 0	156,429(5)	$ 380(6)
Corporate VP & CFO	2002	$ 208,389	$ 0	30,000	$ 380(7)
	2001(3)	$ 49,616	$ 0	160,000	$ 0(8)
Barone, Frank J.	2003	$ 320,830	$ 0	109,286(5)	$ 32,654(6)
Corporate VP, Product Operations	2002	$ 304,696	$ 0	60,000	$ 31,730(7)
	2001	$ 322,230	$ 65,000	77,048	$ 34,163(8)
Donovan, Stephen M.	2003	$ 214,038	$ 0	156,123(5)	$ 4,472(6)
Corporate VP, Sales	2002	$ 210,000	$ 0	70,000	$ 4,472(7)
	2001	$ 210,000	$ 120,000	75,712	$ 6,919(8)
Laub, Steven A.	2003(4)	$ 331,018	$ 0	601,052(5)	$ 7,445(6)
Former President	2002	$ 318,161	$ 0	230,000	$ 7,285(7)
	2001	$ 258,727	$ 200,000	568,084	$ 5,804(8)

1. Fiscal 2003 is a 53 week year. Fiscal 2002 and 2001 were 52 week years. No salary increases were awarded to the named executive officers in 2003. Salary includes amounts deferred pursuant to our 401(k) savings plan.

2. Bonuses for each year include amounts earned for a given year, even if paid in subsequent years, and exclude bonuses paid during such year that were earned for a prior year.

3. Mr. Johannessen rejoined us on October 8, 2001.

4. Mr. Laub left us on December 19, 2003.

5. Includes grants made pursuant to a voluntary stock option exchange program offered to all employees in the amount of 1,339,072 shares to Mr. Tsui, 357,086 to Mr. Skaggs, 91,429 to Mr. Johannessen, 74,286 to Mr. Barone, 106,123 to Mr. Donovan, and 601,052 to Mr. Laub.

6. Includes payments we made during 2003 for life and disability insurance in the amounts of $39,842 for Mr. Tsui, $3,709 for Mr. Skaggs, $380 for Mr. Johannessen, $7,731 for Mr. Barone, $4,472 for Mr. Donovan, and $7,445 for Mr. Laub. Also includes patent awards of $2,434 for Mr. Tsui. Also includes a 10 year service award of $5,000 to Mr. Skaggs. Also includes an auto allowance of $24,923 for Mr. Barone.

7. Includes payments we made during 2002 for life and disability insurance in the amounts of $38,225 for Mr. Tsui, $3,529 for Mr. Skaggs, $380 for Mr. Johannessen, $7,730 for Mr. Barone, $4,472 for Mr. Donovan, and $7,285 for Mr. Laub. Also includes patent awards of $3,314 for Mr. Tsui. Also includes an auto allowance of $24,000 for Mr. Barone.

8. Includes payments we made during 2001 for life and disability insurance in the amounts of $34,399 for Mr. Tsui, $533 for Mr. Skaggs, $4,510 for Mr. Barone, $1,265 for Mr. Donovan, and $1,766 for Mr. Laub. Also includes contributions we made to the 401(k) plan in the amounts of $5,654 for Mr. Tsui, $5,654 for Mr. Skaggs, $5,654 for Mr. Barone, $5,654 for Mr. Donovan, and $4,039 for Mr. Laub. Also includes patent awards of $1,800 for Mr. Tsui. Also includes an auto allowance of $24,000 for Mr. Barone.

OPTIONS GRANTED AND OPTIONS EXERCISED IN 2003

The following tables set forth information regarding stock options granted to and exercised by the named executive officers during fiscal 2003, as well as options held by the named executive officers as of the end of fiscal 2003.

OPTION GRANTS IN 2003

	Individual Grants				Potential Realizable Value At Assumed Annual Rates Of Stock Price Appreciation (through Expiration Date)	
Name and Principal Position	**Option Grants (# of shs)**	**% of Total Options Granted to Employees**	**Exercise Price ($/sh)**	**Expiration Date**	**5% Per Year $(3)**	**10% Per Year $(3)**
Tsui, Cyrus Y.	1,339,072	13.8%	$ 8.21(1)	9/18/13	$ 6,913,930	$ 17,521,256
CEO	525,000	5.4%	$ 7.28(2)	10/28/13	$ 2,403,635	$ 6,091,284
Skaggs, Stephen A.	357,086	3.7%	$ 8.21(1)	9/18/13	$ 1,843,715	$ 4,672,337
President	240,000	2.5%	$ 7.28(2)	10/28/13	$ 1,098,805	$ 2,784,587
Johannessen, Jan	91,429	..9%	$ 8.21(1)	9/18/13	$ 472,068	$ 1,196,314
Corporate VP & CFO	65,000	..7%	$ 7.28(2)	10/28/13	$ 297,593	$ 754,159
Barone, Frank J.	74,286	..8%	$ 8.21(1)	9/18/13	$ 383,555	$ 972,004
Corporate VP, Product Operations	35,000	..4%	$ 7.28(2)	10/28/13	$ 160,242	$ 406,086
Donovan, Stephen M.	106,123	1.1%	$ 8.21(1)	9/18/13	$ 547,937	$ 1,388,580
Corporate VP, Sales	50,000	..5%	$ 7.28(2)	10/28/13	$ 228,918	$ 580,122
Laub, Steven A. Former President	601,052	6.2%	$ 8.21(1)	9/18/13	$ 3,103,367	$ 7,864,540

(1) This option was granted under our 1996 Stock Incentive Plan in connection with our Stock Option Exchange Program and has an exercise price equal to the fair market value of our common stock as of the date of the grant. This grant vests quarterly over a two-year period.

(2) This option was granted under our 2001 Stock Plan, and has an exercise price equal to the fair market value of our common stock as of the date of the grant. This grant vests quarterly over a four-year period.

(3) The 5% and 10% assumed rates of appreciation are mandated by the rules of the SEC and do not represent our estimate or projection of future prices for our common stock.

OPTION EXERCISES IN 2003 AND YEAR-END OPTION VALUES

Name and Principal Position	Shares Acquired on Exercise(#)	Value Realized	Number of Unexercised Options at Year-End: Vested (# of shrs)	Number of Unexercised Options at Year-End: Unvested (# of shrs)	Value of Unexercised In-the-Money Options At Year-End($): Vested(1)	Value of Unexercised In-the-Money Options At Year-End($): Unvested(1)
Tsui, Cyrus Y. CEO	0	$ 0	1,381,447	2,057,626	$ 3,196,795	$ 4,895,065
Skaggs, Stephen A. President	0	$ 0	324,636	662,450	$ 767,666	$ 1,627,763
Johannessen, Jan Corporate VP & CFO	0	$ 0	20,804	165,625	$ 57,667	$ 395,869
Barone, Frank J. Corporate VP, Product Operations	0	$ 0	218,292	141,250	$ 148,797	$ 372,788
Donovan, Stephen M. Corporate VP, Sales	0	$ 0	315,140	190,983	$ 722,238	$ 489,016
Laub, Steven A. Former President	0	$ 0	313,257	0	$ 779,104	$ 0

(1) Represents the difference between the exercise prices of the options and the closing price of our common stock on January 3, 2004, the last day of our 2003 fiscal year.

Report on Stock Option Exchange Programs

2003 Stock Option Exchange Program

Employee stock options are a valuable motivation and retention tool and, as such, help to align the interests of our employees with our stockholders. In 2003, the majority of our outstanding employee stock options were "underwater," meaning that the per share exercise prices of these stock options were greater than the then current market price of our common stock. The 2003 Stock Option Exchange Program, approved by our board of directors, was structured to accomplish three important objectives:

- foster retention of our valuable employees;
- better align the interests of our employees and stockholders to maximize stockholder value; and
- reduce the number of outstanding employee stock options as a percentage of outstanding shares and thus reduce potential future stockholder dilution.

On March 14, 2003, we completed the exchange offer related to the 2003 Stock Option Exchange Program. Under the exchange offer, eligible employees had the opportunity to tender for cancellation certain stock options in exchange for new options to be granted at least six months and one day after the cancellation of the tendered options. Each eligible participant received options to purchase four shares of common stock for every seven shares subject to options submitted for cancellation. We accepted options to purchase approximately 11.2 million shares for exchange and granted new options to purchase approximately 6.4 million shares. The exercise price per share of the new options was equal to the fair market value of our common stock on the new grant date, which was September 18, 2003.

1998 Stock Option Exchange Program

Effective November 10, 1998, we offered employees the choice of exchanging certain previously granted stock options for new stock options. The new stock options had an exercise price of $7.75, the fair market value of our common stock on the effective date, and vested over four years from the effective date. As a result, options to purchase approximately 3.8 million shares were exchanged. The exchanged stock options had a weighted average exercise price of $15.37. Share amounts and prices have been adjusted for the two-for-one stock splits effected September 16, 1999 and October 11, 2000.

The table below provides certain information concerning all of our executive officers and former executive officers who received option grants on September 18, 2003, in connection with the 2003 Stock Option Exchange Program and the options that were cancelled on March 17, 2003, pursuant to that program, or received option grants in connection with the 1998 Stock Option Exchange Program. We have not implemented any other option repricing or option cancellation/regrant programs. The number of securities underlying options canceled, the number of securities underlying options granted, the exercise price at time of cancellation and the exercise price of replacement options information in the table below has been adjusted for the two-for-one stock splits effected September 16, 1999 and October 11, 2000. The non-employee members of the board were not eligible to participate in either option exchange.

10 YEAR REPRICING TABLE

Name and Principal Position	Date of Cancellation	Number of Securities Underlying Options at Time of Cancellation	Date New Options were Granted	Number of Securities Underlying Options Granted	Exercise price at time of Cancellation	Exercise Price of Replacement Options	Length of Original Option Term Remaining at Date of Cancellation
Tsui, Cyrus Y.	11/10/1998	525,000	11/10/1998	525,000	$ 16.5625	$ 7.75	8.75 Years
Chairman and CEO	3/17/2003	525,000	9/18/2003	300,000	14.875	8.21	6.40 Years
	3/17/2003	525,000	9/18/2003	300,000	32.25	8.21	7.13 Years
	3/17/2003	525,000	9/18/2003	300,000	25.4375	8.21	7.38 Years
	3/17/2003	525,000	9/18/2003	300,000	24.91	8.21	8.40 Years
	3/17/2003	243,375	9/18/2003	139,072	17.08	8.21	8.63 Years
Skaggs, Stephen A.	11/10/1998	140,000	11/10/1998	140,000	16.5625	7.75	8.75 Years
President	3/17/2003	140,000	9/18/2003	80,000	14.875	8.21	6.40 Years
	3/17/2003	140,000	9/18/2003	80,000	32.25	8.21	7.13 Years
	3/17/2003	140,000	9/18/2003	80,000	25.4375	8.21	7.38 Years
	3/17/2003	140,000	9/18/2003	80,000	24.91	8.21	8.40 Years
	3/17/2003	64,900	9/18/2003	37,086	17.08	8.21	8.63 Years
Johannessen, Jan Corporate VP & CFO	3/17/2003	160,000	9/18/2003	91,429	17.08	8.21	8.63 Years
Barone, Frank J.	3/17/2003	70,000	9/18/2003	40,000	25.4375	8.21	7.38 Years
Corporate VP, Product Operations	3/17/2003	60,000	9/18/2003	34,286	24.91	8.21	8.40 Years
Donovan, Stephen	11/10/1998	80,000	11/10/1998	80,000	16.5625	7.75	8.75 Years
Corporate VP, Sales	11/10/1998	160,000	11/10/1998	160,000	11.9688	7.75	9.48 Years
	3/17/2003	50,000	9/18/2003	28,572	14.875	8.21	6.40 Years
	3/17/2003	60,000	9/18/2003	34,286	25.4375	8.21	7.38 Years
	3/17/2003	60,000	9/18/2003	34,286	24.91	8.21	8.40 Years
	3/17/2003	15,712	9/18/2003	8,979	17.08	8.21	8.63 Years
Laub, Steven A.	11/10/1998	180,000	11/10/1998	180,000	16.5625	7.75	8.75 Years

Name and Principal Position	Date of Cancellation	Number of Securities Underlying Options at Time of Cancellation	Date New Options were Granted	Number of Securities Underlying Options Granted	Exercise price at time of Cancellation	Exercise Price of Replacement Options	Length of Original Option Term Remaining at Date of Cancellation
Former President	3/17/2003	123,750	9/18/2003	70,715	14.875	8.21	6.40 Years
	3/17/2003	180,000	9/18/2003	102,858	32.25	8.21	7.13 Years
	3/17/2003	180,000	9/18/2003	102,858	25.4375	8.21	7.38 Years
	3/17/2003	150,000	9/18/2003	85,715	24.91	8.21	8.40 Years
	3/17/2003	300,000	9/18/2003	171,429	24.91	8.21	8.40 Years
	3/17/2003	118,084	9/18/2003	67,477	17.08	8.21	8.63 Years
Yu, Jonathan K.	11/10/1998	60,000	11/10/1998	60,000	16.5625	7.75	8.75 Years
Corporate VP, Product	3/17/2003	40,000	9/18/2003	22,858	32.25	8.21	7.13 Years
Development	3/17/2003	60,000	9/18/2003	34,286	25.4375	8.21	7.38 Years
	3/17/2003	60,000	9/18/2003	34,286	24.91	8.21	8.40 Years
	3/17/2003	23,780	9/18/2003	13,589	17.08	8.21	8.63 Years
Baker, Martin R.	11/10/1998	160,000	11/10/1998	160,000	12.9688	7.75	3.16 Years
VP, General Counsel	3/17/2003	48,000	9/18/2003	27,429	14.875	8.21	6.40 Years
	3/17/2003	40,000	9/18/2003	22,858	32.25	8.21	7.13 Years
	3/17/2003	40,000	9/18/2003	22,858	25.4375	8.21	7.38 Years
	3/17/2003	40,000	9/18/2003	22,858	24.91	8.21	8.40 Years
	3/17/2003	18,543	9/18/2003	10,596	17.08	8.21	8.63 Years
Sloss, Rodney F.	11/10/1998	60,000	11/10/1998	60,000	16.5625	7.75	8.75 Years
VP, Finance	3/17/2003	50,000	9/18/2003	28,572	14.875	8.21	6.40 Years
	3/17/2003	40,000	9/18/2003	22,858	32.25	8.21	7.13 Years
	3/17/2003	50,000	9/18/2003	28,572	25.4375	8.21	7.38 Years
	3/17/2003	45,000	9/18/2003	25,715	24.91	8.21	8.40 Years
	3/17/2003	20,519	9/18/2003	11,726	17.08	8.21	8.63 Years

Yu, Kenneth K.	11/10/1998	80,000	11/10/1998	80,000	16.5625	7.75	8.75 Years
VP and Managing	3/17/2003	72,000	9/18/2003	41,143	14.875	8.21	6.40 Years
Director Lattice Asia	3/17/2003	60,000	9/18/2003	34,286	25.4375	8.21	7.38 Years
	3/17/2003	70,000	9/18/2003	40,000	24.91	8.21	8.40 Years
	3/17/2003	16,995	9/18/2003	9,712	17.08	8.21	8.63 Years
Baker, Randy D.	11/10/1998	80,000	11/10/1998	80,000	16.5625	7.75	8.75 Years
VP, Manufacturing	3/17/2003	60,000	9/18/2003	34,286	14.875	8.21	6.40 Years
	3/17/2003	60,000	9/18/2003	34,286	25.4375	8.21	7.38 Years
	3/17/2003	50,000	9/18/2003	28,572	24.91	8.21	8.40 Years
	3/17/2003	50,000	9/18/2003	28,572	24.91	8.21	8.40 Years
	3/17/2003	20,844	9/18/2003	11,911	17.08	8.21	8.63 Years
Chan, Albert L.	11/10/1998	80,000	11/10/1998	80,000	16.5625	7.75	8.75 Years
VP and General	3/17/2003	80,000	9/18/2003	45,715	14.875	8.21	6.40 Years
Manager, Lattice	3/17/2003	70,000	9/18/2003	40,000	25.4375	8.21	7.38 Years
Silicon Valley	3/17/2003	70,000	9/18/2003	40,000	24.91	8.21	8.40 Years
	3/17/2003	18,331	9/18/2003	10,475	17.08	8.21	8.63 Years
Kingzett, Thomas J.	11/10/1998	26,000	11/10/1998	26,000	16.5625	7.75	8.75 Years
VP, Reliability and	11/10/1998	40,000	11/10/1998	40,000	12.9375	7.75	9.00 Years
Quality Assurance	3/17/2003	40,000	9/18/2003	22,858	14.875	8.21	6.40 Years
	3/17/2003	50,000	9/18/2003	28,572	25.4375	8.21	7.38 Years
	3/17/2003	50,000	9/18/2003	28,572	24.91	8.21	8.40 Years
	3/17/2003	13,093	9/18/2003	7,482	17.08	8.21	8.63 Years
Kopec, Stanley J.	11/10/1998	26,000	11/10/1998	26,000	16.5625	7.75	8.75 Years
VP, Corporate	11/10/1998	40,000	11/10/1998	40,000	12.9375	7.75	9.00 Years
Marketing	3/17/2003	48,000	9/18/2003	27,429	14.875	8.21	6.40 Years
	3/17/2003	50,000	9/18/2003	28,572	25.4375	8.21	7.38 Years
	3/17/2003	50,000	9/18/2003	28,572	24.91	8.21	8.40 Years
	3/17/2003	13,093	9/18/2003	7,482	17.08	8.21	8.63 Years

Compensation Committee
Mark O. Hatfield, Chairman
Daniel S. Hauer

COMPARISON OF TOTAL CUMULATIVE STOCKHOLDER RETURN

The following graph shows the five-year comparison of cumulative stockholder return on our common stock, the S&P 500 Index, and the Philadelphia Semiconductor Index (SOX) from March 1998 through December 2003. Cumulative stockholder return assumes $100 invested at the beginning of the period in our common stock, the S&P 500, and the Philadelphia Semiconductor Index (SOX). Historical stock price performance is not necessarily indicative of future stock price performance.

LATTICE CUMULATIVE STOCKHOLDER RETURN

* $100 invested on 3/31/98 in stock or index-including reinvestment of dividends. Data points are at the 31st of the month indicated on the graph.

**SECURITY OWNERSHIP OF CERTAIN BENEFICIAL
OWNERS AND MANAGEMENT**

The following table sets forth, as of March 18, 2004, information about (i) persons known to us to be the beneficial owners of more than five percent of our outstanding common stock, (ii) each director and named executive officer and (iii) all directors and executive officers as a group:

Beneficial Owner	Number of Shares(1)	Percent of Class
FMR Corp. 82 Devonshire St. Boston, MA 02109	16,256,430(2)	14.4%
Mazama Capital Management Inc. 1 SW Columbia, Suite 1500 Portland, OR 97258	14,026,779(3)	12.4%
Citigroup, Inc. 399 Park Avenue New York, NY 10043	12,494,824(4)	11.0%
State Farm Mutual Automobile Insurance Company One State Farm Plaza Bloomington, IL 61701	6,525,035(5)	5.8%
Cyrus Y. Tsui Chairman of the Board and CEO	3,387,513(6)	3.0%
Stephen A. Skaggs, President	473,067(7)	*
Steven M. Donovan, Corporate Vice President, Sales	373,165(8)	*
Frank J. Barone, Corporate Vice President, Product Operations	358,579(9)	*
Steven A. Laub, Former President	267,977(10)	*
Jan Johannessen, Corporate Vice President and CFO	44,107(11)	*