

LATTICE SEMICONDUCTOR CORP
Form S-3
August 13, 2003

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As filed with the Securities and Exchange Commission on August 13, 2003
Registration No. 333-

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM S-3

REGISTRATION STATEMENT

Under

The Securities Act of 1933

LATTICE SEMICONDUCTOR CORPORATION

(Exact name of Registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

93-0835214

(I.R.S. Employer
Identification Number)

**5555 N.E. Moore Court
Hillsboro, Oregon 97124-6421
(503) 268-8000**

(Address, including zip code, and telephone number, including area code, of Registrant's principal executive offices)

**Stephen A. Skaggs
Chief Financial Officer
Lattice Semiconductor Corporation
5555 N.E. Moore Court
Hillsboro, Oregon 97124-6421
(503) 268-8000**

(Name, address, including zip code, and telephone number, including area code, of agent for service)

Copies to:

**John A. Fore, Esq.
Wilson Sonsini Goodrich & Rosati
Professional Corporation
650 Page Mill Road
Palo Alto, CA 94304
(650) 493-9300**

Approximate date of commencement of proposed sale to the public: From time to time after the effective date of this Registration Statement.

If the only securities being registered on this Form are being offered pursuant to dividend or interest reinvestment plans, please check the following box.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box.

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

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If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box.

CALCULATION OF REGISTRATION FEE

Title of Securities to be Registered	Amount to be Registered	Proposed Maximum Offering Price Per Share(1)	Proposed Maximum Aggregate Offering Price	Amount of Registration Fee
Zero Coupon Convertible Subordinated Notes due July 1, 2010	\$184,000,000	84.5%	\$155,480,000	\$12,579
Common Stock, \$0.01 par value	15,255,532(2)	(2)	(2)	(3)

(1) Estimated solely for the purpose of calculating the registration fee pursuant to Rule 457(c) of the Securities Act of 1933, as amended, based upon the average bid and asked prices of the Zero Coupon Convertible Subordinated Notes due 2010 on the PORTAL Market on August 11, 2003.

(2) Includes 15,255,532 shares of common stock issuable upon conversion of the notes at the initial conversion rate of approximately 82.9105 shares of our common stock for each \$1,000 principal amount of notes. Pursuant to Rule 416 under the Securities Act, such number of shares of common stock registered hereby shall include an indeterminate number of shares of common stock that may be issued in connection with a stock split, stock dividend, recapitalization or similar event.

(3) Pursuant to Rule 457(i) under the Securities Act, there is no additional filing fee with respect to the shares of common stock issuable upon conversion of the notes because no additional consideration will be received in connection with the exercise of the conversion privilege.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Commission acting pursuant to said Section 8(a) may determine.

The information in this prospectus is not complete and may be changed. These securities may not be sold until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED August 13, 2003

LATTICE SEMICONDUCTOR CORPORATION

\$184,000,000

(aggregate principal amount)

**Zero Coupon Convertible Subordinated Notes due July 1, 2010 and
the Common Stock Issuable Upon Conversion of the Notes**

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We issued the notes in a private placement in June 2003. This prospectus will be used by selling securityholders to resell their notes and the common stock issuable upon conversion of their notes. We will not receive any proceeds from this offering.

The notes are issued only in denominations of \$1,000 and integral multiples of \$1,000 and mature on July 1, 2010. You may convert your notes into 82.9105 shares of our common stock, subject to certain adjustments.

We will not pay interest on the notes; however, because they were issued to their initial holders with original issue discount, subject to certain exceptions, the notes will continue to accrue original issue discount taxable as ordinary interest income. The notes are subordinated.

We may redeem the notes at the times and at the prices specified in this prospectus. In the event of a change in control, you may require us to repurchase any notes held by you.

The notes are not listed on any securities exchange or included in any automated quotation system. The notes are eligible for trading on The PORTAL® Market. Our common stock is traded on the Nasdaq National Market under the symbol "LSCC." On August 11, 2003, the last reported sale price for our common stock on the Nasdaq National Market was \$7.05 per share.

Investing in the securities involves a high degree of risk. See "Risk Factors" beginning on page 7.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The date of this prospectus is _____, 2003

You should rely only on the information incorporated by reference or provided in this prospectus or a prospectus supplement or amendment. We have not authorized anyone else to provide you with different information. We are not making an offer of these securities in any state where the offer is not permitted. You should not assume the information in this prospectus or a prospectus supplement or amendment is accurate as of any date other than the date on the front of the documents.

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INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE

The following documents filed by us with the Securities and Exchange Commission, or the "SEC," are incorporated by reference into, and are attached to and made part of, this prospectus:

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the description of our common stock contained in our registration statement on Form 8-A, filed on September 27, 1989, including any amendments or reports filed for the purpose of updating such description;

the Annual Report on Form 10-K for the fiscal year ended December 29, 2002, including the information incorporated by reference from our definitive proxy statement relating to our 2003 annual meeting of stockholders;

Our Quarterly Report on Form 10-Q for the fiscal quarter ended March 29, 2003, filed on May 12, 2003;

Our Quarterly Report on Form 10-Q for the fiscal quarter ended June 28, 2003, filed on August 8, 2003;

Our current report on Form 8-K, filed on June 17, 2003.

You may request a copy of these filings, at no cost, by writing or telephoning us at the following:

Investor Relations Department
Lattice Semiconductor Corporation
5555 N.E. Moore Court
Hillsboro, Oregon 97124-6421
Telephone: (503) 268-8000

We are also incorporating by reference all documents filed with the SEC by us pursuant to sections 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934 subsequent to the date hereof and prior to termination of the offering made hereby. Any statement contained in a document incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or superseded for purposes of this prospectus to the extent that a statement contained in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement.

Our common stock is traded on the Nasdaq National Market under the symbol "LSCC." You may inspect reports and other information concerning us at the offices of the Nasdaq National Market, 1735 K Street, N.W., Washington, D.C. 20006-1005.

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SUMMARY

This summary highlights some information from this prospectus, and it may not contain all of the information that is important to you. It is qualified in its entirety by the more detailed information and consolidated financial statements, including the notes to the consolidated financial statements, included or incorporated by reference in this prospectus. You should read the full text of, and consider carefully the more specific details contained in, this prospectus before investing in the notes. Unless the context otherwise indicates, as used in this prospectus, the terms "Lattice," "we," "us," and "our" means Lattice Semiconductor Corporation and its subsidiaries.

Lattice Semiconductor Corporation designs, develops and markets high performance programmable logic devices, or PLDs, and related software. Programmable logic devices are widely-used semiconductor components that can be configured by end customers as specific logic circuits, and thus enable shorter design cycle times and reduced development costs. Our end customers are primarily original equipment manufacturers in the communications, computing, industrial, automotive, medical, consumer and military end markets. In January 2002, we acquired the field programmable gate array, or FPGA, business of Agere Systems, Inc. This acquisition increased our share of the PLD market, accelerated our entry into the FPGA segment and provided us with additional technical employees and intellectual property.

Manufacturers of electronic systems are increasingly challenged to bring differentiated products to market quickly. These competitive pressures often preclude the use of custom-designed application specific integrated circuits, or ASICs, which generally entail significant design risks and time delay. Standard logic products, an alternative to custom-designed ASICs, limit a manufacturer's flexibility to adequately customize an end system. PLDs address this inherent dilemma. PLDs are standard products, purchased by systems manufacturers in a "blank" state, that can be custom configured into a virtually unlimited number of specific logic functions by programming the device with electrical signals. PLDs give system designers the ability to quickly create custom logic functions to provide product differentiation without sacrificing

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rapid time to market. Certain PLD products, including our own, are reprogrammable, meaning that the logic configuration can be modified, if needed, after the initial programming. ISP and XP PLDs, pioneered by us, extend the flexibility of standard reprogrammable PLDs by allowing the system designer to configure and reconfigure logic functions using system power supplies and without removing the PLD from the system board.

Since 1992, we have focused on developing a leadership portfolio of complex PLD, or CPLD, products and increasing the percentage of our overall revenue derived from this attractive market. At present, we offer the industry's broadest line of CPLDs based on our numerous families of ispLSI® and ispMACH products. In the future, we plan to continue to introduce new families of innovative CPLD products, as well as improve the performance and reduce the manufacturing cost of our existing product families based on market needs. Our newest CPLD product families use innovative architectures and are targeted towards the low voltage portion of the market. We believe that our multiple families of leadership CPLD products provide us a competitive advantage in this market.

In 2002, we entered the FPGA market as a result of our acquisition of the FPGA business of Agere and the introduction of an internally developed product family. At present we offer three FPGA product families within our ORCA® product portfolio. These products are targeted toward the mainstream FPGA market. In addition, we currently offer a family of field programmable system chips, or FPSCs. FPSCs, which combine generic FPGAs with embedded intellectual property cores on a single programmable chip, offer customers the ability to quickly implement complex system-level designs in a flexible manner. Recently we introduced two new product families based on our innovative XP, or extended programmability technology. The ispXPGA family, based on register-intensive architecture, targets traditional FPGA designs. The ispXPLD family, based on a hybrid architecture, combines the benefits of a wide-input CPLD logic cell with the availability of abundant memory resources. We also

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offer an additional product family, ispGDX®, that targets a unique aspect of the programmable logic market. This family extends in-system programmability to the circuit board level using an innovative digital cross-point switch architecture. In the future, we plan to introduce new families of innovative, high performance and higher density FPGAs.

We also have programmable analog and programmable mixed signal products in our portfolio as we believe these devices provide an opportunity to extend our proprietary technology to an untapped potential market. Our two device ispPACPOWR family allows designers to easily meet the challenges of sequencing and managing the multiple power supplies prevalent within today's advanced systems. Our five device ispPAC® family extends in-system programmability to the analog market. The intuitive silicon architecture and easy to use software of our ispPAC products allow designers to quickly and easily implement custom designs.

All of our digital products are supported by our ispLEVER 3.0 software development tool suite. This latest version of ispLEVER software supports our CPLD product families, our acquired Agere FPGA and FPSC product families and our newest XP product families.

We also offer the industry's broadest line of low-density CMOS PLDs based on our 18 families of products offered in over 200 speed, power, package and temperature range combinations.

We sell our products directly to end customers through a network of independent manufacturers' representatives and indirectly through a network of independent distributors. We also employ a direct sales management and field applications engineering organization to support our end customers and indirect sales resources.

Our manufacturing strategy has been to procure silicon wafers for our products from leading manufacturers under current purchase orders and long-term agreements. This strategy allows us to focus our internal resources on product, process and market development, and eliminates the fixed cost of owning and operating manufacturing facilities. We are also able to take advantage of the ongoing advanced process technology development efforts of semiconductor foundries. In addition, all of our assembly operations and most of our test operations are performed by outside suppliers. We perform certain test operations and reliability and quality assurance processes internally. We have achieved an ISO 9001 quality certification, which is an indication of our high internal operational standards. We source silicon wafers from our foundry partners, Seiko Epson in Japan, United Microelectronics Corporation in Taiwan and Chartered Semiconductor Manufacturing, Ltd. in Singapore, pursuant to agreements with each company and their respective affiliates. We negotiate wafer volumes, prices and other terms with our foundry partners and their respective affiliates on a periodic basis.

Lattice was incorporated in Oregon in 1983 and reincorporated in Delaware in 1985. Our principal offices are located at 5555 N.E. Moore Court, Hillsboro, Oregon 97124, our telephone number is (503) 268-8000 and our website can be accessed at www.latticesemi.com. Information contained on our website does not constitute part of this prospectus.

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"ispLSI," "ispGDX," "ispMACH," "ispPAC," "ispXPGA," "ispXPLD," "ispLEVER," "E²CMOS," "ISP," "LATTICE SEMICONDUCTOR CORPORATION," and "L LATTICE SEMICONDUCTOR CORPORATION," including the design and the symbol "L" in the form appearing on the cover page of this prospectus, are trademarks of Lattice Semiconductor Corporation. Other brands, names and trademarks contained in this prospectus are the property of their respective owners.

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THE OFFERING

The following is a brief summary of some of the terms of the notes offered for resale in this prospectus. For a more complete description of the terms of the notes, see the section entitled "Description of the Notes" in this prospectus.

Securities Offered	\$184,000,000 principal amount of Zero Coupon Convertible Subordinated Notes due July 1, 2010.
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Interest	Interest on the notes is zero.
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Original Issue Discount	The notes were issued to their initial holders with original issue discount for United States federal income tax purposes equal to the principal amount of the notes less the issue price, which was 97.5% of the principal amount of the notes. You should be aware that, although we will not pay any interest on the notes, subject to certain exceptions, U.S. Holders must include in their gross income any original issue discount as ordinary income as it accrues, regardless of their regular method of tax accounting.
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Conversion	Unless we have previously redeemed, purchased or repurchased the notes, you will have the right, at your option, to convert your notes, in whole or in part, into shares of our common stock prior to maturity, subject to adjustments described herein, at a conversion price of \$12.0612 per share, as follows:
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you will have such conversion right in a conversion period (as defined in this prospectus) on any date on or prior to December 31, 2007, if the closing sale price of our common stock for at least 20 trading days in the period of the 30 consecutive trading days ending on the trading day immediately preceding the first day of such conversion period was more than 110% of the then current conversion price of the notes;

if, on any date after December 31, 2007, the closing sale price of our common stock is more than 110% of the then current conversion price of the notes, then you will have such conversion right at all times thereafter;

you will have the right to convert the notes until the close of business on the business day prior to the redemption date if we elect to call the notes for redemption on or after July 1, 2008;

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if we distribute to all or substantially all holders of our common stock rights, options or warrants entitling them to purchase common stock at less than the closing sale price of our common stock on the trading day preceding the declaration for such distribution;

if we distribute to all or substantially all holders of our common stock cash, assets, debt securities or capital stock, which distribution has a per share value as determined by our board of directors exceeding 5% of the closing sale price of our common stock on the trading day preceding the declaration for such distribution; or

if we become a party to a consolidation, merger or sale of all or substantially all of our assets that constitutes a fundamental change as defined in "Description of Notes Repurchase at Option of the Holder upon Occurrence of Fundamental Change."

You may also convert your notes into shares of our common stock for the five business day period after any five consecutive trading-day period in which the average trading prices for the notes for such five trading-day period was less than 95% of the average conversion value (as defined in this prospectus) for the notes during that period; provided, however, if, at the time of the conversion, the closing sale price of shares of our common stock is greater than the then current conversion price on the notes and less than or equal to 110% of the then current conversion price on the notes and you surrender your notes for conversion, you will receive, at our option, cash, common stock or a combination of cash and common stock with a value equal to the principal amount of your notes on such conversion date. If we elect to pay you in common stock or in a combination of cash and common stock, our common stock will be valued at 100% of the average closing sale price for the five trading days ending on the third trading day preceding the conversion date.

The conversion price is subject to adjustment upon certain events.

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Subordination

The notes are subordinated to all of our senior indebtedness and effectively subordinated to all indebtedness and other liabilities of our subsidiaries (including trade payables, but excluding intercompany liabilities). As of June 30, 2003, we had no senior indebtedness outstanding, and our subsidiaries had \$2.3 million of indebtedness and other liabilities outstanding (including trade payables, but excluding intercompany liabilities). Neither we nor our subsidiaries are prohibited from incurring indebtedness, including senior indebtedness, under the indenture.

Global Notes; Book-Entry System

We issued the notes in fully registered form in minimum denominations of \$1,000. The notes are evidenced by one global note deposited with the trustee for the notes, as custodian for DTC. Beneficial interests in the global note are and will be shown on, and transfers of those beneficial interests can only be made through, records maintained by DTC and its participants.

Transfer Restrictions

The notes and the common stock issuable upon conversion of the notes have not been registered under the Securities Act or qualified under any other securities laws. The notes and such common stock are, therefore, subject to certain restrictions on transfer and may only be offered or sold in transactions exempt from, or not subject to, the registration requirements of the Securities Act.

Optional Redemption

On or after July 1, 2008, we have the option to redeem all or a portion of the notes at 100% of the principal amount of the notes.

Purchase of the Notes at the Option of Holder

You may require us to purchase all or a portion of your notes in cash on

July 1, 2008, at 100% of the principal amount of the notes.

Repurchase at the Option of the Holder upon Occurrence of Fundamental Change

If a fundamental change (as described under "Description of Notes Repurchase at Option of the Holder upon Occurrence of Fundamental Change") occurs, you may require us to repurchase all or part of your notes at a repurchase price equal to 100% of the outstanding principal amount of the notes being repurchased. The repurchase price is payable in cash or, at our option, subject to certain circumstances, in shares of our common stock valued at 95% of the average closing sales prices of the common stock for the 10 trading days preceding and including the third trading day prior to the repurchase date.

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Use of Proceeds

We will not receive any of the proceeds from the sale by any selling securityholder of the notes or the underlying common stock into which the notes may be converted.

Events of Default

The following are events of default under the indenture for the notes:

we fail to pay the principal, redemption price, purchase price or repurchase price of any note when due, whether or not the payment is prohibited by subordination provisions of the indenture;

we fail to pay liquidated damages, if any, on any note when due, whether or not the payment is prohibited by subordination provisions of the indenture;

we fail to perform any other covenant in the indenture and that failure continues for 60 days after written notice; or

events of bankruptcy, insolvency or reorganization involving Lattice.

Registration Rights

We agreed to file a shelf registration statement with the SEC covering the resale of the notes and the underlying common stock within 90 days after the closing date of this offering. We also agreed to use our reasonable efforts to have the registration statement declared effective within 180 days of such date and use reasonable efforts to keep the shelf registration statement effective until either of the following has occurred:

all securities covered by the registration statement have been sold; or

the expiration of the holding period applicable with respect to the notes and the underlying common stock under Rule 144(k) under the Securities Act, or any successor provision.

Trading of the Notes; Listing of Common Stock

The notes are expected to be eligible for trading on The PORTAL® Market of the National Association of Securities Dealers, Inc. Our common stock is quoted on the Nasdaq National Market under the symbol "LSCC."

Governing Law

The indenture, the registration rights agreement and the notes are governed by the laws of the State of New York.

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RISK FACTORS

You should carefully consider and evaluate all of the information in this prospectus, including the risk factors listed below. Any of these risks could materially and adversely affect our business, financial condition and results of operations, which in turn could materially and adversely affect the price of the notes and the common stock.

Keep these risk factors in mind when you read "forward-looking" statements elsewhere in this prospectus and in the documents incorporated herein by reference. Such statements relate to our expectations about future events and time periods. Generally, the words "anticipate," "believe," "expect," "intend" and similar expressions identify forward-looking statements. Forward-looking statements involve risks and uncertainties, and future events and circumstances could differ significantly from those anticipated in the forward-looking statements.

Risks Related to Our Business

A continuing downturn in the communications equipment and computing end markets has caused a reduction in demand for our products and limited our ability to maintain or increase revenue levels and operating results.

A significant portion of our revenue is derived from customers in the communications equipment and computing end markets. A downturn in the economy could lead to a contraction of capital spending on information technology. This in turn could lead to a reduction in the demand for communications or computing equipment and for our products.

Due to a deterioration in overall economic conditions and a significant reduction in information technology capital spending, the communications and computing end markets are currently experiencing significant and prolonged downturns. At present and in the future when these or other similar conditions exist, there is likely to be an adverse effect on our operating results.

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

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

the cyclical nature of the demand for the products of semiconductor customers;

general reductions in inventory levels by customers;

excess production capacity;

general decline in end-user demand; and

accelerated declines in average selling prices.

Beginning in 2001, the semiconductor industry experienced a significant downturn. At present and in the future when these or other similar conditions exist, there is likely to be an adverse effect on our operating results.

We may experience unexpected difficulties integrating the FPGA business which we recently purchased from Agere.

On January 18, 2002, we acquired the FPGA business of Agere Systems, Inc. and are currently completing the integration of this business with our operations. If our integration is unsuccessful, more difficult or more time consuming than originally planned, we may incur unexpected disruptions to our

ongoing business. These disruptions could harm our operating results. Further, the following specific factors may adversely affect our ability to integrate the FPGA business of Agere:

we may experience unexpected losses of key employees or customers;

we may not achieve expected levels of revenue growth;

we may not be able to coordinate our new product and process development in a way which permits us to bring future new products to the market in a timely manner; and

we may discover unexpected liabilities.

We may be unsuccessful in defining, developing or selling new products required to maintain or expand 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 silicon and software 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 operating results would be harmed.

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

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

successful product definition;

timely and efficient completion of product design;

timely and efficient implementation of wafer manufacturing and assembly processes;

product performance;

product cost; and

the quality and reliability of the product.

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

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

To develop new products and maintain the competitiveness of existing products, we need to migrate to more advanced wafer manufacturing processes that use larger wafer sizes and smaller device geometries. We also may need to use additional foundries. Because we depend upon foundries to provide their facilities and support for our process technology development, we may experience delays in the availability of advanced wafer manufacturing process technologies at existing or new wafer fabrication facilities. As a result, volume production of our advanced process technologies at the fabs of Seiko Epson, United Microelectronics Corporation, which we refer to in this prospectus as UMC,

Chartered Semiconductor or future foundries may not be achieved. This could harm our operating results.

In late 2001, UMC informed us that as part of an overall capacity rationalization they were planning to close certain of their fabrication facilities. We were developing an advanced wafer manufacturing process at one of the UMC fabs that has been closed. With UMC's support, we have transferred this process to another UMC fab. However, as a result, our new product introduction schedules were delayed. This could harm our operating results.

Our marketable securities, which we hold for strategic reasons, are subject to equity price risk and their value may fluctuate.

Currently we hold substantial equity in UMC, which we acquired as part of a strategic investment to obtain certain manufacturing rights. The market price and valuation of these equity shares has fluctuated widely due to market and other conditions over which we have little control. During the year ended December 31, 2001, we recorded a \$152.8 million pre-tax impairment loss related to this investment. In the future, UMC shares may continue to experience significant price volatility. In the second quarter of 2002, we sold a portion of our UMC shares, but have otherwise not attempted to reduce or eliminate this equity price risk through hedging or similar techniques and hence substantial, sustained changes in the market price of UMC shares could impact our financial results. To the extent that the market value of our UMC shares experiences a significant decline for an extended period of time, our net income could be reduced.

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

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

general economic conditions in the countries where we sell our products;

potential impact on demand and customers from the SARS outbreak;

conditions within the end markets into which we sell our products;

the cyclical nature of demand for our customers' products;

excessive inventory accumulation by our end customers;

the timing of our and our competitors' new product introductions;

product obsolescence;

the scheduling, rescheduling and cancellation of large orders by our customers;

our ability to develop new process technologies and achieve volume production at the fabs of Seiko Epson, UMC, Chartered Semiconductor or at other foundries;

changes in manufacturing yields;

adverse movements in exchange rates, interest rates or tax rates; and

the availability of adequate supply commitments from our wafer foundries and assembly and test contractors.

As a result of these factors, our past financial results are not necessarily a good predictor of our future results.

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

We do not manufacture finished silicon wafers. Currently, substantially all of our silicon wafers are manufactured by Seiko Epson in Japan, UMC in Taiwan, and Chartered Semiconductor in Singapore. If Seiko Epson, through its U.S. affiliate, Epson Electronics America, UMC or Chartered significantly interrupts or reduces our wafer supply, our operating results could be harmed.

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

Many other factors that could disrupt our wafer supply are beyond our control. Since worldwide manufacturing capacity for silicon wafers is limited and inelastic, we could be harmed by significant industry-wide increases in overall wafer demand or interruptions in wafer supply. Additionally, a future disruption of Seiko Epson's, UMC's or Chartered Semiconductor's foundry operations as a result of a fire, earthquake or other natural disaster could disrupt our wafer supply and could harm our operating results.

If our foundry partners experience quality or yield problems, we may face a shortage of 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. If our foundries are unable for a prolonged period to produce silicon wafers that meet our specifications, with acceptable yields, our operating results could be harmed.

The majority of our revenue is derived from products based on a specialized silicon wafer manufacturing process technology called E²CMOS®. The reliable manufacture of high performance E²CMOS 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 us and the wafer supplier.

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

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

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

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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 us and the assembly contractor.

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

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

All three of our major silicon wafer suppliers operate fabs located in Asia. Our finished silicon wafers are assembled and tested by independent contractors located in China, Malaysia, the Philippines, South Korea and Taiwan. A prolonged interruption in our supply from any of these contractors could harm our operating results.

Economic, financial, social and political conditions in Asia have historically been volatile. Financial difficulties, governmental actions or restrictions, prolonged work stoppages or any other difficulties experienced by our suppliers may disrupt our supply and could harm our operating results.

Our wafer purchases from Seiko Epson are denominated in Japanese yen. The value of the dollar with respect to the yen fluctuates. Substantial deterioration of dollar-yen exchange rates could harm 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 or terrorism;

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 historically been affected by regional economic crises. Significant changes in the economic climate in the foreign countries where we derive our export sales could harm our operating results.

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 in the future. We currently compete directly with companies that have licensed our technology or have developed similar products. We also compete indirectly with numerous semiconductor companies that offer products 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 unable to adequately protect our intellectual property rights, our financial results and competitive position may suffer.

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

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

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.

Our industry is characterized by frequent claims regarding patents and other intellectual property rights of others. We have been, and from time-to-time expect to be, notified of claims that we are infringing the intellectual property rights of others. If any third party makes a valid claim against us, we could face significant liability and could be required to make material changes to our products and processes. In response to

any claims of infringement, we may seek licenses under patents that we are alleged to be infringing. However, we may not be able to obtain a license on favorable terms or without our operating results being adversely affected.

Risks Related to This Offering

The notes are subordinated and we may incur additional debt.

The notes are unsecured and subordinated in right of payment in full to all of our senior indebtedness. As a result, in the event of our bankruptcy, liquidation or reorganization or upon acceleration of the notes due to an event of default under the indenture and in certain other events, our assets will be available to pay obligations on the notes only after all senior indebtedness has been paid in full. After retiring our senior indebtedness, we may not have sufficient assets remaining to pay amounts due on any or all of the notes then outstanding.

The notes are our exclusive obligations and our corporate structure results in structural subordination of the notes. A portion of our operations is conducted in part through subsidiaries. Our subsidiaries are separate legal entities and have no obligation to make any payments on the notes or to make any funds available for payment on the notes. The payment of dividends and the making of loans and advances to us by our subsidiaries may be subject to statutory or contractual restrictions, are dependent upon the earnings of those subsidiaries and are subject to various business considerations. Our right to receive assets of any of our subsidiaries upon their liquidation or reorganization (and the consequent right of the holders of the notes to participate in those assets) will be effectively subordinated to the claims of that subsidiary's creditors (including trade creditors), except to the extent that we are recognized as a creditor of such subsidiary, in which case our claims would still be subordinate to any security interests in the assets of such subsidiary and any indebtedness of such subsidiary senior to that held by us.

The indenture does not prohibit or limit us or our subsidiaries from incurring senior indebtedness or incurring other indebtedness and other liabilities. As of June 30, 2003, we had no indebtedness outstanding that would have constituted senior indebtedness, and our subsidiaries had approximately \$2.3 million of indebtedness and other liabilities outstanding to which the notes would have been effectively subordinated (including trade, but excluding intercompany, liabilities). We anticipate that from time to time we will incur additional senior indebtedness. We and our subsidiaries will also from time to time incur other additional indebtedness and liabilities. See "Description of Notes Subordination of Notes."

We may be unable to repay, purchase or repurchase the notes.

At maturity, the entire outstanding principal amount of the notes will become due and payable. You will also have the right to require us to purchase all or any portion of your notes on July 1, 2008. In addition, if we experience a fundamental change, as defined in "Description of Notes Repurchase at Option of the Holder upon Occurrence of Fundamental Change," you may require us to repurchase all or a portion of your notes. At maturity or on the July 1, 2008 purchase date or if a fundamental change occurs, we may not have sufficient funds or may be unable to arrange for additional financing to pay the principal amount, purchase price or repurchase price due. Under the terms of the indenture for the notes, we may elect, subject to certain conditions, to pay the repurchase price upon a fundamental change with shares of our common stock. Any future borrowing arrangements or agreements relating to debt to which we become a party may contain restrictions on, or prohibitions against, our repayments, purchases or repurchases of the notes. If the maturity date, purchase date or fundamental change occurs at a time when our other arrangements prohibit us from repaying, purchasing or repurchasing the notes, we could try to obtain the consent of the lenders under those arrangements, or we could attempt to refinance the borrowings that contain the restrictions. If we do not obtain the necessary consents or refinance these borrowings, we will be unable to repay, purchase or repurchase the notes. In that case, our failure to purchase or repurchase any tendered notes or repay the notes due upon maturity would constitute an event of default under the indenture.

Provisions of the notes could discourage an acquisition of us by a third party.

Certain provisions of the notes could make it more difficult or more expensive for a third party to acquire us. Upon the occurrence of certain transactions constituting a fundamental change, holders of the notes will have the right, at their option, to require us to repurchase all of their notes or any portion of the principal amount of such notes in integral multiples of \$1,000. In addition, pursuant to the terms of the notes, we may not enter into certain mergers or acquisitions unless, among other things, the surviving person or entity assumes the payment of the principal of, and liquidated damages, if any, on the notes.

The notes are not protected by restrictive covenants.

The indenture governing the notes does not contain any financial or operating covenants or restrictions on the payments of dividends, the incurrence of indebtedness or the issuance or repurchase of securities by us or any of our subsidiaries. The indenture contains no covenants or other provisions to afford protection to holders of the notes in the event of a fundamental change involving Lattice except to the extent described under "Description of Notes Repurchase at Option of the Holder upon Occurrence of Fundamental Change."

Our stock price has been volatile and is likely to remain volatile, which may adversely affect the price of the notes and our common stock.

Our stock has experienced substantial price volatility, particularly as a result of quarterly variations in our operating results, shortfalls in revenue or earnings levels as compared with the published expectations of analysts and announcements of technological innovations or new products by our competitors and us. Price fluctuations of our common stock have been rapid and severe and have left investors little time to react. In addition, the stock market has experienced price and volume fluctuations that have affected the market price of many technology companies and that have often been unrelated to the operating performance of such companies. The price of our securities may also be affected by general global, economic and market conditions. While we cannot predict the individual effect that these and other factors may have on the price of our securities, these factors, either individually or in the aggregate, could result in significant variations in the price of our common stock during any given period of time. These fluctuations in our stock price also impact the price of the notes being offered hereby and our outstanding convertible securities and the likelihood of the convertible securities being converted into equity. If our stock price is below the conversion price of our convertible notes on the date of maturity, holders may not convert them into equity and we may be required to repay the principal amount of the convertible securities for cash. However, in the event they do not convert to equity, we believe that our current cash position and expected future operating cash flows will be adequate to meet these obligations as they mature.

Presently, our stock price is trading near our consolidated book value. A sustained decline in our stock price may result in a write-off of goodwill as required by SFAS 142.

Our notes may not be rated or may receive a lower rating than anticipated.

We believe it is likely that one or more rating agencies may rate the notes. If one or more rating agencies assign the notes a rating lower than expected by investors, the market prices of the notes and our common stock would be materially and adversely affected.

There may be no public market for the notes, and there are restrictions on resale of the notes.

Prior to this offering, there has been no trading market for the notes. Although the initial purchaser has advised us that it currently intends to make a market in the notes, it is not obligated to do so and may discontinue its market-making activities at any time without notice. Consequently, we

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cannot be sure that any market for the notes will develop, or if one does develop, that it will be maintained. If an active market for the notes fails to develop or be sustained, the trading price of the notes could decline. We do not intend to apply for listing of the notes on any securities exchange or any automated quotation system.

The notes and the common stock to be issued upon conversion of the notes have not been registered under the Securities Act and are not transferable except upon satisfaction of the conditions described under "Transfer Restrictions." Although we have agreed to use our reasonable efforts to have declared effective a shelf registration statement covering the notes and the common stock issuable upon conversion of the notes within 180 days after the date the notes are originally issued, we may not be able to have the registration statement declared effective within that time period, if at all.

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RATIO OF EARNINGS TO FIXED CHARGES

Our ratio of earnings to fixed charges for each of the periods indicated is as follows:

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Year ended	Nine months ended	Year ended			Pro Forma Year ended(2)	Six months ended		Pro Forma six months ended(2)
		Dec. 31, 2000	Dec. 31, 2001	Dec. 31, 2002		June 30, 2002	June 30, 2003	
March 31, 1999	Dec. 31, 1999				Dec. 31, 2000	June 30, 2002	June 30, 2003	June 30, 2003
Ratio of earnings to fixed charges(1)		158.3		17.7				

(1) The pre-tax loss from continuing operations for the 9 months ended December 1999, the years ended December 31, 2001 and 2002 and the six months ended June 30, 2002 and 2003 are not sufficient to cover fixed charges by a total of approximately \$77.1 million for the 9 months ended December 1999; \$174.0 million and \$93.4 million for the years ended 2001 and 2002 respectively, \$91.5 million for the pro forma year ended December 31, 2002; \$56.9 million and \$38.3 million for the six months ended June 30, 2002 and 2003, respectively, and \$37.2 million for the pro forma six months ended June 30, 2003. As a result, the ratio of earnings to fixed charges has not been computed for any of these periods.

(2) The pro forma ratio is included as the offering represents a refinancing and the historical ratio is affected by more than ten percent. In computing the pro forma ratio, the historical ratio was adjusted to include interest costs resulting from the issuance of the Zero Coupon Convertible Subordinated Notes and to eliminate interest costs relative to the previously issued debt, which was retired with the proceeds of the Zero Coupon Convertible Subordinated Notes.

DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus and the documents incorporated by reference contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Exchange Act. Any statements about our expectations, beliefs, plans, objectives, assumptions or future events or performance are not historical facts and may be forward-looking. We use words or phrases such as "anticipates," "believes," "estimates," "expects," "intends," "plans," "projects," "may," "will," "should," "continue," "ongoing," "future," "potential" and similar words or phrases to identify forward-looking statements.

Forward-looking statements involve estimates, assumptions, risks and uncertainties that could cause actual results to differ materially from those expressed in them. Among the key factors that could cause our actual results to differ materially from the forward-looking statements are delay in product or technology development, change in economic conditions of the various markets we serve, lack of market acceptance or demand for our new products, dependencies on silicon wafer suppliers and semiconductor assemblers, the impact of competitive products and pricing, opportunities or acquisitions that we pursue, the availability and terms of financing, and the other risks that are described herein and that are otherwise described in "Risk Factors" and elsewhere in this prospectus and in our filings with the Securities and Exchange Commission incorporated by reference. You should not unduly rely on forward-looking statements because our actual results could materially differ from those expressed in any forward-looking statements made by us. Further, any forward-looking statement applies only as of the date on which it is made. We are not required and assume no obligation to update any forward-looking statement or statements to reflect events or circumstances after the date on which such statement is made or to reflect the occurrence of unanticipated events.

USE OF PROCEEDS

We will not receive any of the proceeds from the sale by any selling securityholder of the notes or the underlying common stock into which the notes may be converted.

DESCRIPTION OF THE NOTES

We issued the notes under an indenture between us and U.S. Bank National Association, as trustee. Because this section is a summary, it does not describe every aspect of the notes, the indenture and the registration rights agreements. The following summaries of certain provisions of the indenture and the registration rights agreement do not purport to be complete and are subject to, and are qualified in their entirety by reference to, the detailed provision of the notes, the indenture and the registration rights agreement, including the definitions therein of certain terms.

As used in this "Description of Notes" section, references to "Lattice," "we," "our" or "us" refer solely to Lattice Semiconductor Corporation and not its subsidiaries.

General

The notes are our general, unsecured obligations. The notes are subordinated, which means that they will rank behind certain of our indebtedness, as described below. The notes are limited to \$200,000,000 aggregate principal amount. We are required to repay the principal amount of the notes in full on July 1, 2010 unless previously redeemed, purchased, repurchased or converted.

We will not pay interest on the notes. Because the notes were issued to their initial holders at a discount from their stated redemption price, they have original issue discount for United States federal income tax purposes. A U.S. Holder will be required to include original issue discount equal to the difference between the adjusted issue price and the stated redemption price at maturity of each note in gross income periodically over the term of the notes, before receipt of the cash or other payment attributable to such income. The adjusted issue price of a note upon its acquisition by a U.S. Holder is the issue price (which was 97.5% of the principal amount of the note) plus the original issue discount includible in the income of holders prior to a U.S. Holder's acquisition of the note. Under the original issue discount rules, a U.S. Holder will be required to include in gross income increasingly greater amounts of original issue discount in each successive accrual period. Any amount included in income as original issue discount will increase the U.S. Holder's basis in the note. See "Certain United States Federal Income Tax Considerations."

You may convert the notes into shares of our common stock, subject to certain conditions, at the initial conversion price stated on the front cover of this prospectus, at any time before the close of business on the maturity date, unless the notes have been previously redeemed, purchased or repurchased. The conversion price may be adjusted as described below.

On or after July 1, 2008, we have the option to redeem all or any portion of the notes at 100% of the principal amount of the notes as described below under " Optional Redemption by Lattice."

You may require us to purchase all or a portion of your notes in cash on July 1, 2008 at 100% of the principal amount of the notes as described below under " Purchase of Notes at the Option of the Holder."

If a fundamental change occurs, you will have the right to require us to repurchase your notes as described below under " Repurchase at Option of the Holder upon Occurrence of Fundamental Change." Holders of notes submitted for repurchase will be entitled to convert the notes up to and including the business day immediately preceding the date fixed for repurchase.

Neither we, nor any of our subsidiaries, are subject to any financial covenants under the indenture. In addition, neither we, nor any of our subsidiaries, will be restricted under the indenture from paying dividends, incurring debt, or issuing or repurchasing our securities.

Form, Denomination, Transfer, Exchange and Book-Entry Procedures

The notes are issued:

only in fully registered form,

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without interest coupons, and

in denominations of \$1,000 and greater multiples of \$1,000.

The notes are evidenced by one or more global notes which will be deposited with the trustee as custodian for DTC and registered in the name of Cede & Co., or Cede, as nominee of DTC. Except as set forth below, record ownership of the global note may be transferred, in whole or in part, only to another nominee of DTC or to a successor of DTC or its nominee.

The global note will not be registered in the name of any person, or exchanged for notes that are registered in the name of any person, other than DTC or its nominee unless one or more of the following events occurs:

DTC notifies us that it is unwilling, unable or no longer qualified to continue acting as the depository for the global note,

Lattice, at its option, notifies the trustee in writing that it elects to cause the issuance of the notes in certificated form, or

an event of default with respect to the notes represented by the global note has occurred and is continuing.

In those circumstances, DTC will determine in whose names any securities issued in exchange for the global note will be registered.

Unless we elect to cause the issuance of the notes in certificated form, DTC or its nominee will be considered the sole owner and holder of the global note for all purposes, and as a result:

you cannot get notes registered in your name if they are represented by the global note,

you cannot receive physical certificated notes in exchange for your beneficial interest in the global notes,

you will not be considered to be the owner or holder of the global note or any note it represents for any purpose, and

all payments on the global note will be made to DTC or its nominee.

The laws of some jurisdictions require that certain kinds of purchasers, such as insurance companies, can only own securities in definitive, certificated form. These laws may limit your ability to transfer your beneficial interests in the global note to these types of purchasers.

Only institutions, such as a securities broker or dealer, that have accounts with DTC or its nominee (called participants) and persons that may hold beneficial interests through participants can own a beneficial interest in the global note. The only place where the ownership of beneficial interests in the global note will appear and the only way the transfer of those interests can be made will be on the records kept by DTC (for their participants' interests) and the records kept by those participants (for interests of persons held by participants on their behalf).

Secondary trading in bonds and notes of corporate issuers is generally settled in clearinghouse (that is, next-day) funds. In contrast, beneficial interests in a global note usually trade in DTC's same-day funds settlement system, and settle in immediately available funds. We make no representations as to the effect that settlements in immediately available funds will have on trading activity in those beneficial interests.

We will make cash payments of principal of, any liquidated damages on, the redemption price, purchase price and the repurchase price of the global note to Cede, the nominee for DTC, as the registered owner of the global note. We will make these payments by wire transfer of immediately available funds on each payment date.

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We have been informed that DTC's practice is to credit participants' accounts on the payment date with payments in amounts proportionate to their respective beneficial interests in the notes represented by the global note as shown on DTC's records, unless DTC has reason to believe that it will not receive payment on that payment date. Payments by participants to owners of beneficial interests in notes represented by the global note held through participants will be the responsibility of those participants, as is now the case with securities held for the accounts of customers registered in street name.

We understand that neither DTC nor Cede will consent or vote with respect to the notes. We have been advised that under its usual procedures, DTC will mail an omnibus proxy to us as soon as possible after the record date. The omnibus proxy assigns Cede's consenting or voting rights to those participants to whose accounts the notes are credited on the record date identified in a listing attached to the omnibus proxy.

Because DTC can only act on behalf of participants, who in turn act on behalf of indirect participants, the ability of a person having a beneficial interest in the principal amount represented by the global note to pledge the interest to persons or entities that do not participate in the DTC book-entry system, or otherwise take actions in respect of that interest, may be affected by the lack of a physical certificate evidencing its interest.

DTC has advised us that it will take any action permitted to be taken by a holder of notes, including the presentation of notes for exchange, only at the direction of one or more participants to whose account with DTC interests in the global note are credited and only in respect of such portion of the principal amount of the notes represented by the global note as to which such participant or participants has or have given such direction.

DTC has also advised us as follows:

DTC is a limited purpose trust company organized under the laws of the State of New York, member of the Federal Reserve System, clearing corporation within the meaning of the Uniform Commercial Code, as amended, and clearing agency registered pursuant to the provisions of Section 17A of the Exchange Act,

DTC was created to hold securities for its participants and facilitate the clearance and settlement of securities transactions between participants through electronic book-entry changes in accounts of its participants,

participants include securities brokers and dealers, banks, trust companies and clearing corporations and may include certain other organizations,

certain participants, or their representatives, together with other entities, own DTC, and

indirect access to the DTC System is available to other entities such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a participant, either directly or indirectly.

The policies and procedures of DTC, which may change periodically, will apply to payments, transfers, exchanges and other matters relating to beneficial interests in the global note. We and the trustee have no responsibility or liability for any aspect of DTC's or any participants' records relating to beneficial interests in the global note, including for payments made on the global note. Further, we and the trustee are not responsible for maintaining, supervising or reviewing any of those records.

Conversion Rights

The initial conversion price for the notes is \$12.0612 per share of common stock, subject to adjustment as described below. We will not issue fractional shares of common stock upon conversion of notes. If you have submitted your notes for repurchase upon a fundamental change or for purchase pursuant to your option, you may convert your notes only if you withdraw your repurchase election or purchase notice, as the case may be, in accordance with the indenture. You have the right to convert any portion of the principal amount of any note that is an integral multiple of \$1,000 into shares of our common stock at any time on or prior to the close of business on the maturity date, subject to the

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adjustments described below, as follows:

you will have such conversion right in a conversion period on any date on or prior to December 31, 2007, if the closing sale price of our common stock for at least 20 trading days in the period of the 30 consecutive trading days ending on the trading day immediately preceding the first day of such conversion period was more than 110% of the then current conversion price,

if, on any date after December 31, 2007, the closing sale price of our common stock is more than 110% of the then current conversion price of the notes, then you will have such conversion right at all times thereafter,

you will have the right to convert the notes until the close of business on the business day prior to the redemption date if we elect to call the notes for redemption on or after July 1, 2008,

if we distribute to all or substantially all holders of common stock of Lattice rights, options or warrants entitling them to purchase common stock at less than the closing sale price of our common stock on the trading day preceding the declaration for such distribution,

if we distribute to all or substantially all holders of our common stock cash, assets, debt securities or capital stock, which distribution has a per share value as determined by our board of directors exceeding 5% of the closing sale price of our common stock on the trading day preceding the declaration for such distribution, or

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if we become a party to a consolidation, merger or sale of all or substantially all of our assets that constitutes a fundamental change as defined below under the heading " Repurchase at Option of the Holder upon a Occurrence of Fundamental Change."

We define conversion period in the indenture to be the period from and including the first day in a fiscal quarter to, but excluding, the first day of the following fiscal quarter. In the case of the fourth and fifth bullet points above, we must notify holders of notes at least 20 days prior to the ex-dividend date for such distribution. Once we have given such notice, holders may surrender their notes for conversion at any time until the earlier of the close of business on the business day prior to the ex-dividend date or our announcement that such distribution will not take place. In the case of a distribution identified in the fourth or fifth bullets above, the ability of a holder of notes to convert would not be triggered if the holder may participate in the distribution without converting. In the case of the sixth bullet point above, a holder may surrender notes for conversion at any time from and after the date which is 15 days prior to the anticipated effective date of the transaction until 15 days after the actual date of the transaction.

You also may convert your notes into shares of our common stock for the five business day period after any five consecutive trading-day period in which the average trading prices for the notes for such five trading-day period was less than 95% of the average conversion value (as defined below) for the notes during that period; provided, however, if, at the time of the conversion, the closing sale price of shares of our common stock is greater than the then current conversion price on the notes and less than or equal to 110% of the then current conversion price of the notes, you surrender your notes for conversion and the notes are not otherwise convertible, you will receive, at our option, cash, common stock or a combination of cash and common stock with a value equal to the principal amount of your notes on such conversion date. If we elect to pay you in common stock or in a combination of cash and common stock, our common stock will be valued at 100% of the average closing sale price for the five trading days ending on the third trading day preceding the conversion date.

We define conversion value in the indenture to be equal to the product of the closing sale price of our shares of common stock on a given day multiplied by the then current conversion rate, which is the number of shares of common stock into which each \$1,000 principal amount of notes is convertible.

You may convert all or part of any note by delivering the note at the Corporate Trust Office of the trustee in the Borough of Manhattan, The City of New York, accompanied by a duly signed and completed conversion notice, a copy of which may be obtained by the trustee. The conversion date will be the date on which the note and the duly signed and completed conversion notice are so delivered.

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As promptly as practicable on or after the conversion date, we will issue and deliver to the trustee a certificate or certificates for the number of full shares of our common stock issuable upon conversion, together with payment in lieu of any fraction of a share. The certificate will then be sent by the trustee to the conversion agent for delivery to the holder. The shares of our common stock issuable upon conversion of the notes will be fully paid and nonassessable and will rank equally with the other shares of our common stock.

You will not be required to pay any taxes or duties relating to the issue or delivery of our common stock on conversion, but you will be required to pay any tax with respect to cash received in lieu of fractional shares and any tax or duty relating to any transfer involved in the issue or delivery of our common stock in a name other than yours. Certificates representing shares of our common stock will not be issued or delivered unless all taxes and duties, if any, payable by you have been paid.

We will adjust the conversion price if any of the following events occur:

- (1) we issue common stock as a dividend or distribution on our common stock;
- (2) we issue to all holders of common stock certain rights or warrants to purchase our common stock;
- (3) we subdivide or combine our common stock;
- (4) we distribute to all common stock holders capital stock, evidences of indebtedness or assets, including securities but excluding: rights or warrants listed in (2) above; dividends or distributions listed in (1) above; and dividends and distributions paid exclusively in cash;
- (5) we make distributions consisting exclusively of cash, excluding any cash portion of distributions referred to in (4) above or cash distributed upon a merger or consolidation or in connection with the liquidation, dissolution or winding up of Lattice, to all holders of our common stock in an aggregate amount that, combined together with other all-cash distributions made within the preceding 365-day period in respect of which no adjustment has been made, exceeds 2% of our market capitalization, being the product of the current market price per share of our common stock on the record date for such distribution and the number of shares of common stock then outstanding;
- (6) we or one of our subsidiaries makes a payment in respect of a tender offer or exchange offer for our common stock to the extent that the cash and value of any other consideration included in the payment per share of common stock exceeds the current market price per share of common stock on the trading day next succeeding the last date on which tenders or exchanges may be made pursuant to such tender or exchange offer; and
- (7) someone other than us or one of our subsidiaries makes a payment in respect of a tender offer or exchange offer in which, as of the closing date of the offer, our board of directors is not recommending rejection of the offer. The adjustment referred to in this clause (7) will only be made if: the tender offer or exchange offer is for an amount that increases the offeror's ownership of common stock to more than 25% of the total shares of common stock outstanding, and the cash and value of any other consideration included in the payment per share of common stock exceeds the current market price per share of common stock on the business day next succeeding the last date on which tenders or exchanges may be made pursuant to the tender or exchange offer. However, the adjustment referred to in this clause (7) will generally not be made if as of the closing of the offer, the offering documents disclose a plan or an intention to cause us to engage in a consolidation or merger of Lattice or a sale of all or substantially all of our assets.

To the extent that we have a rights plan in effect upon conversion, you will receive, in addition to the common stock, the rights under the rights plan whether or not the rights have separated from the common stock at the time of conversion, subject to certain limited exceptions.

In the event of:

any reclassification of our common stock; or

a consolidation, merger or combination involving Lattice; or

a sale or conveyance to another person of the property and assets of Lattice as an entirety or substantially as an entirety,

in which holders of common stock would be entitled to receive stock, other securities, other property, assets or cash for their common stock, holders of notes will generally be entitled thereafter to convert their notes into the same type of consideration received by common stock holders immediately prior to one of these types of events.

You may in certain situations be deemed to have received a distribution subject to United States federal income tax as a dividend in the event of any taxable distribution to holders of common stock or

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in certain other situations requiring a conversion price adjustment. See "Certain United States Federal Income Tax Considerations."

We may from time to time reduce the conversion price for a period of at least 20 days if our board of directors has made a determination that this reduction would be in our best interests. Any such determination by our board will be conclusive. We would give holders at least 15 days' notice of any reduction in the conversion price. In addition, we may reduce the conversion price if our board of directors deems it advisable to avoid or diminish any income tax to holders of common stock resulting from any stock or rights distribution. See "Certain United States Federal Income Tax Considerations."

We will not be required to make an adjustment in the conversion price unless the adjustment would require a change of at least 1% in the conversion price. However, we will carry forward any adjustments that are less than one percent of the conversion price. Except as described above in this section, we will not adjust the conversion price for any issuance of our common stock or convertible or exchangeable securities or rights to purchase our common stock or convertible or exchangeable securities.

Optional Redemption by Lattice

On or after July 1, 2008, we may redeem the notes, in whole or in part, at 100% of the principal amount of the notes, plus accrued and unpaid liquidated damages, if any, to, but excluding, the redemption date. If we elect to redeem all or part of the notes, we will give at least 20, but no more than 60, days' prior notice to you.

If we do not redeem all of the notes, the trustee will select the notes to be redeemed in principal amounts of \$1,000 or whole multiples of \$1,000 by lot or on a pro rata basis. If any notes are to be redeemed in part only, we will issue a new note or notes in principal amount equal to the unredeemed principal portion thereof.

No sinking fund is provided for the notes, which means that the indenture does not require us to redeem or retire the notes periodically.

Purchase of Notes at the Option of the Holder

On the purchase date of July 1, 2008, we will, at the option of the holder, be required to purchase for cash any outstanding note for which a written purchase notice has been properly delivered by the holder and not withdrawn, subject to certain additional conditions. Holders may submit their notes for purchase to the paying agent at any time from the opening of business on the date that is 20 business days prior to such purchase date until the close of business on such purchase date. The purchase price of a not