

## PART II

### Item 5. Market for the Registrant's Common Equity and Related Stockholder Matters

Xilinx's Common Stock is listed on the NASDAQ/AMEX National Market System under the symbol XLNX. As of March 31, 2000, there were approximately 940 shareholders of record. Since many holders' shares are listed under their brokerage firms' names, the actual number of shareholders is estimated by the Company to be approximately 158,000.

	Fiscal Year 2000		Fiscal Year 1999	
	High	Low	High	Low
First Quarter	\$29.28	\$20.28	\$11.81	\$ 8.03
Second Quarter	37.53	29.28	10.75	7.63
Third Quarter	47.81	33.25	16.28	7.97
Fourth Quarter	86.81	40.81	21.81	16.25

## Item 6. Selected Financial Data

### Consolidated Statement of Income Data

(In thousands, except per share amounts)

Years ended March 31,	2000	1999	1998	1997	1996
Net revenues	\$1,020,993	\$ 661,983	\$ 613,593	\$ 568,143	\$ 560,802
Operating income	322,192	181,974	173,868	159,061 <sup>2</sup>	165,756 <sup>1</sup>
Income before equity in joint venture and cumulative effect of change in accounting principle	1,024,272 <sup>5</sup>	189,399	180,596	165,758 <sup>2</sup>	170,902 <sup>1</sup>
Provision for income taxes	378,006 <sup>5</sup>	54,925	56,728	55,382	69,448
Net income	652,450 <sup>5</sup>	102,592 <sup>4</sup>	126,587	110,376 <sup>2</sup>	101,454 <sup>1</sup>
Net income per share:					
Basic	\$ 2.06	\$ 0.35	\$ 0.43	\$ 0.38 <sup>2</sup>	\$ 0.36 <sup>1</sup>
Diluted	\$ 1.90	\$ 0.33	\$ 0.40	\$ 0.35 <sup>2</sup>	\$ 0.32 <sup>1</sup>
Shares used in per share calculations:					
Basic	316,724	292,843	294,963	291,264	284,368
Diluted	343,479	308,620	320,041	318,700	315,820
Pro forma amounts with the change in accounting principle related to revenue recognition applied retroactively: (unaudited)					
Net revenues	—	\$ 661,983	\$ 598,065	\$ 568,173	— <sup>3</sup>
Net income	—	129,238	118,987	110,391	— <sup>3</sup>
Net income per share:					
Basic	—	\$ 0.44	\$ 0.40	\$ 0.38	— <sup>3</sup>
Diluted	—	\$ 0.42	\$ 0.37	\$ 0.35	— <sup>3</sup>

<sup>1</sup> After non-recurring charge for in-process technology related to the acquisition of NeoCAD of \$19,366, \$0.07 per basic share and \$0.06 per diluted share.

<sup>2</sup> After write-off of discontinued product family of \$5,000, \$0.02 per basic and diluted shares net of tax.

<sup>3</sup> Data were not available in sufficient detail to provide pro forma information for these years.

<sup>4</sup> Net income includes a charge of \$26,646 for the cumulative effect of change in accounting principle.

<sup>5</sup> Net income includes \$398,089 net of tax capital gain from UMC/USIC merger, which includes \$674,728 capital gain and \$276,639 provision for taxes.

### Consolidated Balance Sheet Data

In thousands

Years ended March 31,	2000	1999	1998	1997	1996
Working capital	\$ 796,213	\$ 490,512	\$ 474,567	\$ 504,302	\$ 436,070
Total assets	2,348,639	1,070,248	941,238	847,693	720,880
Long-term debt	—	—	250,000	250,000	250,000
Stockholders' equity	1,776,655	879,318	550,175	490,680	368,244

## Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

### Cautionary Statement

The statements in this Management's Discussion and Analysis that are forward looking involve numerous risks and uncertainties and are based on current expectations. Actual results may differ materially. Certain of these risks and uncertainties are discussed under "Factors Affecting Future Operating Results". Forward looking statements can often be identified by the use of forward looking words, such as "may," "will," "could," "should," "expect," "believe," "anticipate," "estimate," "continue," "plan," "intend," "project," or other similar words.

### Nature of Operations

Xilinx, Inc. (Xilinx or the Company) designs, develops and markets complete programmable logic solutions, including advanced integrated circuits (ICs), software design tools, predefined system functions delivered as cores of logic and field engineering support. Our programmable logic ICs include field programmable gate arrays (FPGAs) and complex programmable logic devices (CPLDs). These components are standard ICs programmed by our customers to perform desired logic operations. Our products are designed to provide high integration and quick time-to-market for electronic equipment manufacturers primarily in telecommunications, networking, computing, and consumer markets. We market our products throughout the world through a direct sales organization, direct sales to manufacturers by independent sales representative firms, sales through franchised domestic distributors and sales through foreign distributors. Our products provide effective solutions for a wide range of customer logic requirements.

### Results of Operations

#### Net Revenue

In thousands	2000	Change	1999	Change	1998
Net revenue	\$1,020,993	54.2%	\$661,983	7.9%	\$613,593

Xilinx's net revenue increased 54.2% in fiscal 2000 compared to fiscal 1999. The increase was primarily due to the significant growth in XC4000XL, XC4000XLA, XC9500, Spartan™, and Virtex™ product lines, which was partially offset by decreased revenues in our mature XC4000 family. The 7.9% increase in fiscal 1999 over 1998 was primarily due to the penetration in high-growth end markets attributable to the XC4000EX, XC4000XL and XC9500 product lines.

We classify our product offerings into four categories by semiconductor manufacturing process technology. These four product categories are adjusted on a regular basis to accommodate corresponding changes in our technology. Advanced products include our newest technologies manufactured on 0.25-micron and smaller processes, which include the XC4000XV, XC4000XLA, Spartan XL, Spartan-II, Virtex™, and Virtex-E product lines. Advanced products represented 26.7% and 3.1% of total revenues in fiscal 2000 and 1999. The significant increases in revenues of advanced products were due to the introduction and strong market acceptance of XC4000XLA, Spartan XL and Virtex products. Mainstream products are currently manufactured on 0.35 and 0.5-micron technologies and include the XC4000E, XC4000EX, XC4000XL, XC5200, XC9500, XC9500XL, Spartan™ and CoolRunner® product lines. Mainstream products represented 52.6% of total revenues in fiscal 2000 and 63.0% in fiscal 1999. Increases in revenues of 28.7% were attributable mainly to growth in the XC4000XL, Spartan, and XC9500 product lines, along with the acquisition of CoolRunner and introduction of XC9500XL. Base products consist of our mature product families that are currently manufactured on technologies of 0.6-micron and older; this includes the XC2000, XC3000, XC3100, XC4000 and XC7000 families. Base products represented 12.3% of total revenues in fiscal 2000, as compared to 22.2% in fiscal 1999. Our Support products make up the remainder of our product offerings and include serial proms, HardWire, and software. Support products represented 8.4% and 11.7% of total revenues in fiscal 2000 and 1999, respectively. Revenues of Base products decreased 14.5% as customers migrated to newer product offerings

while revenues of Support products increased slightly due to increased revenues from serial proms. No end customer accounted for more than 10% of revenues in fiscal 2000, 1999 or 1998. The revenue by technology for the years ended March 31, 2000, 1999 and 1998 was as follows:

in millions	2000	%	1999	%	1998	%
Base products	\$ 125.5	12.3	\$146.8	22.2	\$263.5	42.9
Mainstream products	537.0	52.6	417.1	63.0	274.0	44.7
Advanced products	272.8	26.7	20.4	3.1	0.1	–
Support products	85.7	8.4	77.7	11.7	76.0	12.4
Total revenue	<u>\$1,021.0</u>	<u>100.0</u>	<u>\$662.0</u>	<u>100.0</u>	<u>\$613.6</u>	<u>100.0</u>

In order to compete effectively, we pass on to customers manufacturing cost reductions by reducing prices to the extent that we can maintain acceptable returns. Price erosion has been common in the semiconductor industry, as advances in both architecture and manufacturing process technology have permitted continual reductions in unit cost. We have historically been able to offset much of the revenue declines of our mature technologies with increased revenues from newer technologies, although no assurance can be given that we can continue to do so in the future.

International revenues represented approximately 33%, 32%, and 38% of total revenues for fiscal years 2000, 1999 and 1998, respectively. International revenues are derived from customers in Europe, Japan and Asia Pacific/Rest of World which represented approximately 20%, 8%, and 5% of our worldwide revenues, respectively, in fiscal 2000 as compared to approximately 21%, 7% and 4% in fiscal 1999. In fiscal 1998, Europe, Japan and Asia Pacific/Rest of World represented approximately 22%, 10% and 5% of worldwide revenues, respectively. Europe, Japan and Asia Pacific/Rest of World experienced significant revenue growth in fiscal 2000 as compared to fiscal 1999 due to wider adoption of our new products in consumer and telecommunication applications and the economic recovery in Japan and the Asia Pacific region. Japan and Asia Pacific/Rest of World experienced revenue declines in fiscal 1999 as compared to 1998 primarily due to a weak economic environment in those regions during fiscal 1999. (See Note 11 of Notes to Consolidated Financial Statements for revenue by geography for the three years ended March 31, 2000, 1999 and 1998.)

During the fourth quarter of fiscal 1999, we changed our accounting method for recognizing revenue on all shipments to international distributors. The change was made retroactive to the beginning of fiscal 1999. While we previously deferred revenue on shipments to domestic distributors until the products were sold to the end user, we recognized revenue upon shipment to international distributors, net of appropriate reserves for returns and allowances. Following the accounting change, revenue recognition on shipments to distributors worldwide is deferred until the products are sold to the end customer. We believe that deferral of revenue on shipments to distributors until the product is shipped by the distributor to an end customer is a more meaningful measurement of results of operations as it better conforms to the substance of the transaction considering the changing business environment in the international marketplace, is consistent with industry practice, and accordingly, it will focus us better on end customer sales; therefore it is a preferable method of accounting. The cumulative effect of the change in accounting method for prior years was a charge of \$26.6 million, net of \$12.0 million in taxes, or \$0.09 net income per diluted share.

## Gross Margin

In thousands	2000	Change	1999	Change	1998
Gross margin	\$636,955	55.1%	\$410,717	7.3%	\$382,903
Percentage of revenue	62.4%		62.0%		62.4%

During fiscal 2000, our gross margin percentage increased slightly from the prior year as efficiencies from increased production volumes resulted in decreased costs as a percentage of revenue. In fiscal 1999, our gross margin percentage declined from fiscal 1998 as a result of a non-recurring royalty payment made pursuant to a license settlement with Lemelson Foundation Partnership which was partially offset by lower wafer prices from wafer suppliers, manufacturing process technology improvements, and improved yields that offset selling price reductions. (See Note 12 of Notes to Consolidated Financial Statements.) We recognize that ongoing price reductions for our integrated circuits are a significant element in expanding the demand for our products. Management believes that a gross margin objective of approximately 62% of revenues is consistent with expanding demand while realizing acceptable returns, although there can be no assurance that future gross margins can remain in this range.

## Research and Development

In thousands	2000	Change	1999	Change	1998
Research and development	\$123,584	36.0%	\$90,893	13.0%	\$80,456
Percentage of revenue	12.1%		13.7%		13.1%

We increased our expenditures in research and development as we have done each year during our sixteen-year history. The increase in research and development expenditures from fiscal 1999 to 2000 was due to designing and developing new product architectures of complex, high density devices including wafer purchases, development of advanced process technologies using 0.22-micron and 0.18-micron technologies, software development, increased labor-related costs, and testing of new products, along with increased costs associated with the acquisition of the CoolRunner® CPLD business. (See Note 13 of Notes to Consolidated Financial Statements.) The increase in research and development expenses from fiscal 1998 to 1999 was due to increased labor-related expenses along with increased costs associated with the assets purchased from MI Acquisition LLP. (See Note 13 of Notes to Consolidated Financial Statements.) We remain committed to a significant level of research and development effort in order to maintain our technology leadership in the programmable logic marketplace. Through March 31, 2000, we have received over 400 issued U.S. patents and we maintain an active program of filing for additional patents in the areas of IC architecture, circuit design, and software.

## Sales, General and Administrative

In thousands	2000	Change	1999	Change	1998
Sales, general and administrative	\$186,619	39.0%	\$134,250	4.4%	\$128,579
Percentage of revenue	18.3%		20.3%		21.0%

The 39.0% increase in sales, general and administrative expenses in fiscal 2000 was primarily attributable to increased personnel and facilities expenses, increased marketing expenses, increased outside sales commissions and sales incentives on higher revenues. Sales, general and administrative expenses increased 4.4% in fiscal 1999 over 1998 due to increased marketing expenses and increased sales commissions on higher revenues from U.S. distributors along with increased personnel costs. Although total sales, general and administrative expenses increased, they decreased as a percent of revenue because of strong revenue growth and improved operational efficiencies. We remain committed to controlling administrative expenses. However, the timing and extent of future legal costs associated with the ongoing enforcement of our intellectual property rights are not readily predictable and may significantly increase in the future.

## Capital Gain from Merger of USIC with UMC

In January 2000, our equity position in United Silicon Inc. (USIC) was converted into shares of UMC which are publicly traded on the Taiwan Stock Exchange. We recognized a gain of \$674.7 million (\$398.1 million net of taxes) in our fiscal 2000 fourth quarter as a result of the merger of USIC with UMC. The gain represents the appreciation of our investment in USIC. As a result of this merger, we own approximately 222 million UMC shares, which represent approximately 2% of the combined UMC Group. We retain equivalent wafer capacity rights in UMC as we previously had in USIC, as long as we retain a percentage of our shares of UMC common stock. If our holdings fall below that percentage, our wafer capacity rights would be decreased prorated by the UMC shares we hold.

Due to restrictions imposed by UMC and the Taiwan Stock Exchange, the majority of our UMC shares may not be sold until July 2000. These regulatory restrictions will gradually expire between July 2000 and January 2004.

## Interest and Other Income, net

In thousands	2000	Change	1999	Change	1998
Interest income and other income, net	\$27,352	268.4%	\$7,425	10.4%	\$6,728
Percentage of revenue	2.7%		1.1%		1.1%

We earn interest income on our cash, cash equivalents and short-term and long-term investments. The amount of interest earned is a function of the balance of cash invested as well as prevailing interest rates. In fiscal 1999 and 1998, we incurred interest expense on the \$250.0 million 5<sup>1</sup>/<sub>4</sub>% convertible subordinated notes, which were fully converted in February 1999.

Average cash and investment balances increased 58% from the prior year while interest rates remained relatively flat from fiscal 1999 to fiscal 2000. The 268% increase in interest and other income in fiscal 2000 from fiscal 1999 was primarily due to the \$11.2 million decrease in interest expense related to the redemption of the convertible notes in February 1999 and increased interest income on higher average cash and investment balances. In 1999, average cash and investment balances decreased slightly from the prior year while interest rates increased moderately, keeping interest income constant from fiscal 1998 to fiscal 1999. The 10.4% increase in interest and other income in fiscal 1999 was primarily due to the decrease in interest expense related to the redemption of the convertible notes offset partially by an increase in foreign currency exchange losses. The amount of net interest and other income in the future will continue to be impacted by the level of our average cash and investment balances, prevailing interest rates, the balance of any debt outstanding, and foreign currency exchange rates.

## Provision for Income Taxes

In thousands	2000	Change	1999	Change	1998
Provision for taxes on income	\$101,368 <sup>1</sup>	84.5%	\$54,925	(3.2%)	\$56,728
Effective tax rate	29.0% <sup>1</sup>		29.0%		31.4%

<sup>1</sup> The total provision for taxes on income in fiscal 2000 was \$378.0 million, including \$276.6 million in capital gains tax on the UMC merger. The combined rate for the fiscal year 2000 was 36.9%.

The tax rates in fiscal 2000 and 1999 were lower than fiscal 1998 because of the R&D tax credit and increased profits from foreign operations where the tax rate is lower than the U.S. rate.

## Joint Venture Equity Converted to UMC Shares

We recorded our proportional ownership of the net income (loss) of USIC, a wafer fabrication joint venture located in Taiwan, as joint venture equity income (loss) prior to the conversion of USIC shares to UMC shares. In fiscal 2000, net gains were generated as USIC began to realize volume wafer production and shipments. The fiscal 1999 net loss was a result of the continued ramp up in production of the wafer fabrication facility. Net income in fiscal 1998 was primarily attributable to foreign exchange gains as well as interest earned on the USIC investment portfolio.

As a result of the conversion of our equity position in USIC to shares of UMC in January 2000, as discussed above, we will no longer record joint venture equity income.

## Inflation

To date, the effects of inflation upon our financial results have not been significant. We cannot assure, however, that inflation will not affect us materially in the future.

## Financial Condition, Liquidity and Capital Resources

Our financial condition as of March 31, 2000 continued to be strong with total current assets exceeding total current liabilities by 4.3 times. At March 31, 1999, total current assets exceeded total current liabilities by 3.9 times. We have used a combination of equity and debt financing and cash flow from operations to support on-going business activities, secure acquisitions and investments in complementary technologies, obtain facilities and capital equipment, and finance inventory and accounts receivable. Additionally, our investment in UMC is available for future sale, subject to restrictions.

## Cash, Cash Equivalents and Short-term Investments

Our cash, cash equivalents and short-term investments increased by \$205.3 million in fiscal 2000 as we continued to generate positive cash flows from operations. Cash, cash equivalents and short-term investments represented 25.9% of total assets at March 31, 2000. During fiscal 2000, we generated cash flow of \$341.1 million from operating activities and \$89.1 million from financing activities, offset by \$398.2 million of cash used for investing activities. Investing activities during fiscal 2000 included \$231.7 million in net purchases of investments, \$143.7 million expenditures for property, plant and equipment, and \$22.8 million for the purchase of Philips' CPLD business. Financing activities during 2000 included \$84.3 million in proceeds from sales of common stock under employee option and stock purchase plans and \$10.0 million from sales of put warrants partially offset by \$5.3 million of treasury stock acquisitions.

## Receivables

Receivables increased 103% from \$66.5 million at the end of fiscal 1999 to \$135.0 million at the end of fiscal 2000. This increase was primarily attributable to an increased level of shipments.

## **Inventories**

Inventories increased 152% from \$52.0 million at March 1999 to \$131.3 million at March 2000. Inventory levels increased during fiscal 2000 due to increased inventory requirements to support revenue growth and a planned build up of inventory for newer products. Additionally, inventory levels, measured as days of sales, declined at distributors compared to the prior fiscal year end due to the timing of shipments. We attempt to maintain sufficient levels of inventory in various product, package and speed configurations to meet anticipated customer demand. On the other hand, we also wish to minimize the handling costs associated with maintaining higher inventory levels and to fully realize the opportunities for cost reductions associated with architecture and manufacturing process advancements. We continually strive to balance these two objectives to provide excellent customer response at a competitive cost.

## **Property, Plant and Equipment**

During 2000, we invested \$143.7 million in property and equipment, as compared to \$40.9 million in 1999. Primary investments in fiscal 2000 were for corporate building and land purchases, software development tools and semiconductor design tools, and test and manufacturing equipment at each of our manufacturing and test locations.

## **Current Liabilities**

Current liabilities increased from \$167.2 million at the end of fiscal 1999 to \$244.7 million at the end of fiscal 2000. The increase was primarily attributable to the increase in accounts payable and deferred income on shipments to distributors. The increase in accounts payable was a result of business expansion and the increase in deferred income on shipments to distributors was due to increased inventory build up at distributors in response to the higher customer demand.

## **Long-term Debt and Lines of Credit**

In fiscal 1999, we converted in full \$250.0 million of 5<sup>1</sup>/<sub>4</sub>% Convertible Subordinated Notes due 2002 for a total of 19.6 million shares of common stock at a price of \$12.75 per share. We have credit facilities for up to \$46.2 million of which \$6.2 million is intended to meet occasional working capital requirements for our Ireland manufacturing facility. At March 31, 2000 and 1999, no borrowings were outstanding under the lines of credit. (See Note 5 of Notes to Consolidated Financial Statements.)

## **Stockholders' Equity**

Stockholders' equity grew by 202% in fiscal 2000 to \$1,776.7 million. The increase of \$897.3 million was attributable to \$652.5 million in net income, \$196.5 million related to the issuance of common stock from employee stock plans and the tax benefit from stock options, \$43.6 million from unrealized gains on available-for-sale securities and our cumulative translation adjustment, and \$10.0 million related to the sale of put warrants partially offset by the \$5.3 million used to acquire treasury stock.

## **Summary of Liquidity**

We anticipate that existing sources of liquidity and cash flow from operations will be sufficient to satisfy our cash needs for the foreseeable future. However, the risk factors discussed below could affect our cash positions adversely. We will continue to evaluate opportunities for investments to obtain additional wafer capacity, procurement of additional capital equipment and facilities, development of new products, and potential acquisitions of businesses, products or technologies that would complement our businesses. We may use available cash or other sources of funding for such purposes.

## **Factors Affecting Future Operating Results**

The semiconductor industry is characterized by rapid technological change, intense competition and cyclical market patterns. Cyclical market patterns are characterized by several factors, including:

- reduced product demand;
- limited visibility of demand for products beyond three months;
- accelerated erosion of average selling prices; and
- tight capacity availability.

Our results of operations are affected by several factors. These factors include general economic conditions, conditions specific to technology companies and to the semiconductor industry in particular, decreases in average selling prices over the life of particular products and the timing of new product introductions (by us, our competitors and others.) In addition, our results of operations are affected by the ability to manufacture sufficient quantities of a given product in a timely manner, the timely implementation of new manufacturing technologies, the ability to safeguard patents and intellectual

property from competitors, the impact of new technologies which result in rapid escalation of demand for some products in the face of equally steep declines in demand for others, and the inability to predict the success of our customers' products in their markets. Market demand for our products, particularly for those most recently introduced, can be difficult to predict, especially in light of customers' demands to shorten product lead times and minimize inventory levels. Unpredictable market demand could lead to revenue volatility if we were unable to provide sufficient quantities of specified products. In addition, any difficulty in achieving targeted wafer production yields could adversely affect our financial condition and results of operations. We attempt to identify changes in market conditions as soon as possible; however, the dynamics of the market make prediction of and timely reaction to such events difficult. Due to these and other factors, our past results, including those described in this report, are much less reliable predictors of the future than with companies in many older, more stable and less dynamic industries. Based on the factors noted herein, we may experience substantial period-to-period fluctuations in future operating results.

Our future success depends in a large part on the continued service of our key technical, sales, marketing and management personnel and on our ability to continue to attract and retain qualified employees. Particularly important are those highly skilled design, process, software and test engineers involved in the manufacture of existing products and the development of new products and processes. The competition for such personnel is intense, and the loss of key employees could have a material adverse effect on our financial condition and results of operations.

Sales and operations outside of the United States subject us to the risks associated with conducting business in foreign economic and regulatory environments. Our financial condition and results of operations could be adversely affected by unfavorable economic conditions in countries in which we do significant business and by changes in foreign currency exchange rates affecting those countries. For example, we have sales and operations in Asia Pacific and Japan. Past economic weakness in these markets adversely affected revenues, and such conditions may occur in the future. Customers may face reduced access to capital and exchange rate fluctuations may adversely affect their ability to purchase our products. In addition, our ability to sell at competitive prices may be diminished. Currency instability may increase credit risks as the weak currencies may impair our customers' ability to repay existing obligations. Any or all of these factors could adversely affect our financial condition and results of operations in the near future.

Our financial condition and results of operations are becoming increasingly dependent on the global economy. Any instability in worldwide economic environments could lead to a contraction of capital spending by our customers. Additional risks to us include government regulation of exports, imposition of tariffs and other potential trade barriers, reduced protection for intellectual property rights in some countries and generally longer receivable collection periods. Moreover, our financial condition and results of operations could be affected in the event of political conflicts in Taiwan where our main foundry partner, UMC, is located.

Our business is also subject to the risks associated with the imposition of legislation and regulations relating specifically to the import or export of semiconductor products. We cannot predict whether quotas, duties, taxes or other charges or restrictions will be imposed by the United States or other countries upon the import or export of our products in the future or what effect, if any, such actions would have on our financial condition and results of operations.

We do not directly manufacture our silicon wafers. Presently, all of our wafers are manufactured by our foundry partners in Taiwan by UMC and in Japan by Seiko. We depend on our foundry partners to deliver reliable silicon wafers, with acceptable yields, in a timely manner. If our foundry partners are unable to produce and deliver silicon wafers that meet our specifications, including acceptable yields, our results of operation could be adversely affected.

Our foundry partners in Taiwan and Japan and many of our operations in California are centered in areas that have been seismically active in the recent past. Should there be a major earthquake in our operating locations in the future, our operations, including our manufacturing activities, may be disrupted. This type of disruption could result in our inability to ship products in a timely manner, thereby materially adversely affecting our financial condition and results of operations.

The securities of many high technology companies have historically been subject to extreme price and volume fluctuations, which may adversely affect the market price of our common stock.

### **Dependence Upon Independent Manufacturers and Subcontractors**

We do not manufacture the semiconductor wafers used for our products. During the past several years, most of our wafers have been manufactured by UMC and Seiko, with recent wafers also manufactured by USIC until its merger into UMC. We are dependent upon these suppliers and others to produce wafers with competitive performance and cost attributes which include transitioning to advanced manufacturing process technologies, producing wafers at acceptable yields and delivering them in a timely manner. While the timeliness, yield and quality of wafer deliveries have met our requirements to date, we cannot guarantee that our wafer suppliers will not experience future manufacturing problems, including delays in the realization of advanced manufacturing process technologies. Additionally, disruption of operations at these foundries for any reason, including natural disasters such as fires, floods, or earthquakes, as well as disruptions in access to adequate supplies of electricity, natural gas or water could cause delays in shipments of our products, and could have a material adverse effect on our results of operations. We are also dependent on subcontractors to provide semiconductor assembly services. Any prolonged inability to obtain wafers or assembly services with competitive performance and cost attributes, adequate yields or timely delivery, or any other circumstance that would require us to seek alternative sources of supply, could delay shipments and have a material adverse effect on our financial condition and results of operations.



Our growth will depend in large part upon our ability to obtain additional wafer fabrication capacity and assembly services from suppliers that are cost competitive. We consider various alternatives in order to secure additional wafer capacity. These alternatives include, without limitation, equity investments in, or loans, deposits, or other financial commitments to independent wafer manufacturers. We also consider the use of contracts which commit us to purchase specified quantities of wafers over extended periods. We are currently able to obtain wafers from existing suppliers in a timely manner. However, at times we have been unable, and may in the future be unable, to fully satisfy customer demand because of production constraints, including the ability of suppliers and subcontractors to provide materials and services to satisfy customer delivery dates, as well as our ability to process products for shipment. In addition, a significant increase in general industry demand or any interruption of supply could reduce our supply of wafers or increase our cost of such wafers. These events could have a material adverse effect on our financial condition and results of operations.

### **Dependence on New Products**

Our success depends in large part on our ability to develop and introduce new products which address customer requirements and compete effectively on the basis of price, density, functionality and performance. The success of new product introductions is dependent upon several factors, including:

- timely completion of new product designs;
- ability to utilize advanced manufacturing process technologies;
- achieving acceptable yields;
- availability of supporting software design tools;
- utilization of predefined cores of logic;
- market acceptance; and
- successful deployment of systems by our customers.

We cannot assure that our product development efforts will be successful or that our new products will achieve market acceptance. Revenues relating to our mature products are expected to decline in the future. As a result, we will be increasingly dependent on revenues derived from newer products along with cost reductions on current products. We rely primarily on obtaining yield improvements and corresponding cost reductions in the manufacture of existing products and on introducing new products which incorporate advanced features and other price/performance factors that enable us to increase revenues while maintaining consistent margins. To the extent that such cost reductions and new product introductions do not occur in a timely manner, or to the extent that our products do not achieve market acceptance at prices with higher margins, our financial condition and results of operations could be materially adversely affected.

### **Competition**

See “competition” discussed in Item 1.

### **Intellectual Property**

We rely upon patent, trademark, trade secret and copyright law to protect our intellectual property. We cannot assure that such intellectual property rights can be successfully asserted in the future or will not be invalidated, circumvented or challenged. From time to time, third parties, including our competitors, have asserted patent, copyright and other intellectual property rights to technologies that are important to us. We cannot assure that third parties will not assert infringement claims against us in the future, that assertions by third parties will not result in costly litigation or that we would prevail in such litigation or be able to license any valid and infringed patents from third parties on commercially reasonable terms. Litigation, regardless of its outcome, could result in substantial costs and diversion of our resources. Any infringement claim or other litigation against us or by us could materially adversely affect our financial condition and results of operations. (See Part II – Other Information, Item 1 – Legal Proceedings for a discussion of litigation between Xilinx and Altera Corporation.)

### **Euro Currency**

Beginning in 1999, 11 member countries of the European Union established fixed conversion rates between their existing sovereign currencies and adopted the Euro as their common legal currency. During the three-year transition, the Euro will be available for non-cash transactions and legacy currencies will remain legal tender. We are continuing to assess the Euro's impact on our business. We are reviewing the ability of our accounting and information systems to handle the conversion, the ability of foreign banks to report on dual currencies, the legal and contractual implications of agreements, as well as reviewing our pricing strategies. We expect that any additional modifications to our operations and systems will be completed on a timely basis and do not believe the conversion will have a material adverse impact on our operations. However, we cannot assure that we will be able to successfully modify all systems and contracts to comply with Euro requirements.

## **Litigation**

We are currently engaged in several legal matters. (See Legal Proceedings in Item 3 and Note 12 of Notes to Consolidated Financial Statements in Item 8.)

## **Item 7A. Market Rate Risks**

### **Interest Rate Risk**

Our exposure to interest rate risk relates primarily to our investment portfolio. (See Note 5 of Notes to Consolidated Financial Statements.) Our primary aim with our investment portfolio is to invest available cash while preserving principal and meeting liquidity needs. The portfolio includes tax-advantaged municipal bonds, tax-advantaged auction rate preferred municipal bonds, commercial paper, and U.S. Treasury securities. In accordance with our investment policy, we place investments with high credit quality issuers and limit the amount of credit exposure to any one issuer. These securities are subject to interest rate risk and will decrease in value if market interest rates increase. A hypothetical 10% increase in interest rates would result in a \$2.8 million and \$1.5 million (less than 0.3% for both years) decrease in the fair value of our available-for-sale securities as of the end of fiscal 2000 and 1999, respectively. In addition, we have historically had the ability and have the intent to hold our securities until maturity and therefore, do not expect to recognize an adverse impact on income or cash flows, although there can be no assurance of this.

### **Foreign Currency Risk**

We use forward currency exchange contracts to reduce financial market risks. Our sales to Japanese customers are denominated in yen while our purchases of processed silicon wafers from Japanese foundries are primarily denominated in U.S. dollars. Gains and losses on foreign currency forward contracts that are designated and effective as hedges of anticipated transactions, for which a firm commitment has been attained, are deferred and included in the basis of the transaction in the same period that the underlying transactions are settled. Gains and losses on any instruments not meeting the above criteria would be recognized in income in the current period. A 15% adverse change in yen exchange rates, based on historical average rate fluctuations, would have had approximately a 1.0% adverse impact on revenue for fiscal years 2000, 1999 and 1998. In fiscal 2000, we have also begun to share the yen exchange rate risk with some of our Japanese customers through risk sharing agreements. As we will continue to have a net yen exposure in the near future, we will continue to mitigate the exposure through yen hedging contracts. However, no currency forward contracts were outstanding as of March 31, 2000.

Our investments in several subsidiaries and in the UMC securities are recorded in currencies other than the U.S. dollar. As these foreign currency denominated investments are translated at each month end during consolidation, fluctuations of exchange rates between the foreign currency and the U.S. dollar increase or decrease the value of those investments. If permanent changes occur in exchange rates after an investment is made, the investment's value will increase or decrease accordingly. These fluctuations are recorded within stockholders' equity as a component of accumulated other comprehensive income. Also, as our subsidiaries maintain investments denominated in other than local currencies, exchange rate fluctuations will occur.

## Item 8. Financial Statements and Supplementary Data

### Consolidated Statements of Income

In thousands, except per share amounts

Years ended March 31,	2000	1999	1998
Net revenues	\$1,020,993	\$661,983	\$613,593
Costs and expenses:			
Cost of revenues	384,038	251,266	230,690
Research and development	123,584	90,893	80,456
Sales, general and administrative	186,619	134,250	128,579
Write-off of in-process research and development	4,560	3,600	—
Total operating costs and expenses	698,801	480,009	439,725
Operating income	322,192	181,974	173,868
Capital gain from merger of United Silicon Inc. with United Microelectronics Corp.	674,728	—	—
Interest income and other	27,361	19,341	20,652
Interest expense	(9)	(11,916)	(13,924)
Income before provision for taxes on income, equity in joint venture and cumulative effect of change in accounting principle	1,024,272	189,399	180,596
Provision for taxes on income	378,006	54,925	56,728
Income before equity in joint venture and cumulative effect of change in accounting principle	646,266	134,474	123,868
Equity in income/(loss) of joint venture	6,184	(5,236)	2,719
Income before cumulative effect of change in accounting principle	652,450	129,238	126,587
Cumulative effect of change in accounting principle	—	(26,646)	—
<b>Net income</b>	<b>\$ 652,450</b>	<b>\$ 102,592</b>	<b>\$ 126,587</b>

Net income per share:

Basic			
Income before cumulative effect of change in accounting principle	\$ 2.06	\$ 0.44	\$ 0.43
Cumulative effect of change in accounting principle	—	(0.09)	—
Basic net income per share	\$ 2.06	\$ 0.35	\$ 0.43
Diluted			
Income before cumulative effect of change in accounting principle	\$ 1.90	\$ 0.42	\$ 0.40
Cumulative effect of change in accounting principle	—	(0.09)	—
Diluted net income per share	\$ 1.90	\$ 0.33	\$ 0.40

Shares used in per share calculations:

Basic	316,724	292,843	294,963
Diluted	343,479	308,620	320,041

Pro forma amounts with the change in accounting principle

related to revenue recognition applied retroactively (unaudited):

Net revenues	—	\$ 661,983	\$ 598,065
Net income	—	\$ 129,238	\$ 118,987
Net income per share:			
Basic	—	\$ 0.44	\$ 0.40
Diluted	—	\$ 0.42	\$ 0.37

## Consolidated Balance Sheets

In thousands, except per share amounts

March 31,	2000	1999
<b>Assets</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 85,548	\$ 53,584
Short-term investments	522,202	348,888
Accounts receivable, net of allowances for doubtful accounts, pricing adjustments and customer returns of \$15,539 and \$7,409 in 2000 and 1999, respectively	135,048	66,470
Inventories	131,307	52,036
Deferred income taxes	91,282	54,911
Advances for wafer purchases	22,485	59,450
Other current assets	53,053	22,370
Total current assets	1,040,925	657,709
Property, plant and equipment, at cost:		
Land	49,944	10,361
Building	98,674	48,017
Machinery and equipment	168,973	117,814
Furniture and fixtures	19,351	11,290
	336,942	187,482
Accumulated depreciation and amortization	(96,568)	(85,777)
Net property, plant and equipment	240,374	101,705
Long-term investments	185,073	94,002
Restricted investments	–	34,358
Investment in United Microelectronics Corp. in 2000 (Joint venture in 1999)	838,923	91,057
Advances for wafer purchases	–	36,694
Developed technology and other assets	43,344	54,723
Total assets	\$2,348,639	\$1,070,248
<b>Liabilities and stockholders' equity</b>		
<b>Current liabilities:</b>		
Accounts payable	\$ 56,361	\$ 23,326
Accrued payroll and payroll related liabilities	29,796	20,223
Income tax payable	27,982	25,998
Deferred income on shipments to distributors	115,002	85,709
Interest payable and other accrued liabilities	15,571	11,941
Total current liabilities	244,712	167,197
Deferred tax liabilities	327,272	23,733
Commitments and contingencies	–	–
<b>Stockholders' equity:</b>		
Preferred stock, \$.01 par value; 2,000 shares authorized; none issued and outstanding	–	–
Common stock, \$.01 par value; 500,000 shares authorized; 325,512 shares issued and outstanding at March 31, 2000; 312,762 shares issued and 312,486 shares outstanding at March 31, 1999	3,255	3,124
Additional paid-in capital	487,634	291,669
Retained earnings	1,259,510	607,060
Treasury stock, at cost	–	(5,112)
Accumulated other comprehensive income	26,256	(17,423)
Total stockholders' equity	1,776,655	879,318
	\$2,348,639	\$1,070,248

## Consolidated Statements of Cash Flows

In thousands

Years ended March 31,	2000	1999	1998
Increase / (decrease) in Cash and Cash Equivalents			
<b>Cash flows from operating activities:</b>			
Net income	\$ 652,450	\$ 102,592	\$ 126,587
Adjustments to reconcile net income to net cash provided by operating activities:			
Cumulative effect of change in accounting principle	—	26,646	—
Depreciation and amortization	44,191	32,112	32,709
Write-off of acquired in-process technology	4,560	3,600	—
Capital gain related to United Microelectronics Corp. merger	(674,728)	—	—
Provision for deferred income taxes	254,444	(6,607)	(4,191)
Undistributed earnings of joint venture	(6,184)	5,236	(3,747)
Changes in assets and liabilities:			
Accounts receivable	(68,578)	(9,143)	8,075
Inventories	2,160	58,328	7,469
Prepaid assets	(31,201)	(4,556)	(6,202)
Deferred income taxes	22,537	(1,837)	2,854
Other assets	(15,242)	(957)	22,253
Accounts payable	33,035	(2,405)	3,600
Other accrued liabilities	13,054	33,509	(573)
Income taxes payable	81,319	15,913	10,025
Deferred income on shipments to distributors	29,293	(8,806)	19,543
Total adjustments	(311,340)	141,033	91,815
Net cash provided by operating activities	341,110	243,625	218,402
<b>Cash flows from investing activities:</b>			
Purchases of available-for-sale investments	(2,506,365)	(1,177,948)	(337,500)
Proceeds from sale or maturity of available-for-sale investments	2,240,293	896,396	352,149
Purchases of held-to-maturity investments	—	(36,228)	(72,281)
Proceeds from maturity of held-to-maturity investments	34,358	36,145	72,267
Proceeds from sale of held-to-maturity investment	—	36,202	—
Advances for wafer purchases	—	—	(90,000)
Investments in property, plant and equipment	(143,746)	(40,922)	(29,700)
Investment in joint venture	—	(5,448)	(67,422)
Assets purchased with acquisitions	(22,750)	(6,776)	—
Deposit on building	—	—	(28,351)
Net cash used in investing activities	(398,210)	(298,579)	(200,838)
<b>Cash flows from financing activities:</b>			
Acquisition of treasury stock	(5,289)	(113,804)	(93,795)
Proceeds from issuance of common stock	84,315	55,481	27,189
Proceeds from sale of put warrants	10,038	—	—
Net cash provided by / (used in) financing activities	89,064	(58,323)	(66,606)
Net increase / (decrease) in cash and cash equivalents	31,964	(113,277)	(49,042)
Cash and cash equivalents at beginning of period	53,584	166,861	215,903
Cash and cash equivalents at end of period	\$ 85,548	\$ 53,584	\$ 166,861
<b>Schedule of non-cash transactions:</b>			
Tax benefit from stock options	\$ 112,143	\$ 34,856	\$ 16,099
Issuance of treasury stock under employee stock plans	10,400	112,162	38,669
Issuance of treasury stock from debt conversion	—	53,503	—
Conversion of long term debt to common stock	—	250,322	—
<b>Supplemental disclosures of cash flow information:</b>			
Interest paid	9	12,992	13,008
Income taxes paid	\$ 11,881	\$ 21,469	\$ 39,472

See accompanying notes

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## Consolidated Statements of Stockholders' Equity

In thousands Three years ended March 31, 2000	Common Stock Outstanding		Additional Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income	Total Stockholders' Equity
	Shares	Amount					
<b>Balance at March 31, 1997</b>	293,368	\$2,934	\$112,246	\$ 377,881	\$ (1,847)	\$ (534)	\$ 490,680
Components of							
comprehensive income:							
Net income		—	—	126,587	—	—	126,587
Unrealized gain on							
available-for-sale securities,							
net of tax expense of \$13	—	—	—	—	—	19	19
Cumulative translation adjustment	—	—	—	—	—	(16,604)	(16,604)
Total comprehensive income							<u>110,002</u>
Issuance of common shares							
under employee stock plans	7,604	(18)	27,207	—	—	—	27,189
Acquisition of treasury stock	(9,320)	—	—	—	(93,795)	—	(93,795)
Issuance of treasury stock							
under employee stock plans	—	—	(38,669)	—	38,669	—	—
Tax benefit from exercise of stock options	—	—	16,099	—	—	—	16,099
<b>Balance at March 31, 1998</b>	291,652	2,916	116,883	504,468	(56,973)	(17,119)	550,175
Components of							
comprehensive income:							
Net income	—	—	—	102,592	—	—	102,592
Unrealized gain on							
available-for-sale securities,							
net of tax expense of \$87	—	—	—	—	—	130	130
Cumulative translation adjustment	—	—	—	—	—	(434)	(434)
Total comprehensive income							<u>102,288</u>
Issuance of common shares							
under employee stock plans	12,458	208	55,273	—	—	—	55,481
Issuance of common shares							
from convertible debt	19,608	—	250,322	—	—	—	250,322
Acquisition of treasury stock	(11,232)	—	—	—	(113,804)	—	(113,804)
Issuance of treasury stock							
under employee stock plans	—	—	(112,162)	—	112,162	—	—
Issuance of treasury stock							
from debt conversion	—	—	(53,503)	—	53,503	—	—
Tax benefit from exercise of stock options	—	—	34,856	—	—	—	34,856
<b>Balance at March 31, 1999</b>	312,486	3,124	291,669	607,060	(5,112)	(17,423)	879,318
Components of							
comprehensive income:							
Net income	—	—	—	652,450	—	—	652,450
Unrealized gain on							
available-for-sale securities,							
net of tax expense of \$18,313	—	—	—	—	—	26,073	26,073
Cumulative translation adjustment	—	—	—	—	—	17,606	17,606
Total comprehensive income							<u>696,129</u>
Issuance of common shares							
under employee stock plans	13,272	131	84,184	—	—	—	84,315
Acquisition of treasury stock	(246)	—	—	—	(5,288)	—	(5,288)
Issuance of treasury stock							
under employee stock plans	—	—	(10,400)	—	10,400	—	—
Put option premiums	—	—	10,038	—	—	—	10,038
Tax benefit from exercise of stock options	—	—	112,143	—	—	—	112,143
<b>Balance at March 31, 2000</b>	325,512	\$3,255	\$487,634	\$1,259,510	\$ —	\$26,256	\$1,776,655

## Notes to Consolidated Financial Statements

### Note 1. Nature of Operations

Xilinx designs, develops and markets complete programmable logic solutions, including advanced integrated circuits, software design tools, predefined system functions delivered as cores of logic and field engineering support. The wafers used to manufacture our products are obtained from independent wafer manufacturers located in Taiwan and Japan. We are dependent upon these manufacturers to produce and deliver wafers on a timely basis. We are also dependent on subcontractors, located in the Asia Pacific region, to provide semiconductor assembly services. Xilinx is a global company with manufacturing and test facilities in the United States and Ireland and sales offices throughout the world. We derive approximately one-third of our revenues from international sales, primarily in Europe and Japan.

### Note 2. Summary of Significant Accounting Policies and Concentrations of Risk

#### Basis of Presentation

The accompanying consolidated financial statements include the accounts of Xilinx and our wholly owned subsidiaries after elimination of all intercompany transactions. Our fiscal year ends on the Saturday nearest March 31. For ease of presentation, March 31 has been utilized as the fiscal year-end for all financial statement captions. Fiscal 2000 and 1998 were 52-week years ended on April 1, 2000 and March 28, 1998, respectively. Fiscal 1999 was a 53-week year ended on April 3, 1999.

Certain amounts from the prior years have been reclassified to conform to the current year presentation.

#### Cash Equivalents and Investments

Cash and cash equivalents consist of cash on deposit with banks and investments in money market instruments and U.S. Treasury notes with minimal interest rate risk and original maturities of 90 days or less when acquired. Short-term investments consist of tax-advantaged municipal bonds, commercial papers and tax-advantaged auction rate preferred municipal bonds with maturities greater than 90 days but less than one year from the balance sheet date. Restricted investments consisted of certificates of deposit held as collateral relating to leases for our facilities. In December 1999, we exercised our option to purchase three buildings previously leased at our San Jose corporate facility. The restricted investment of \$34.4 million was used to purchase the buildings. (See Note 6 of Notes to Consolidated Financial Statements.) Long-term investments consist of U.S. Treasury notes, government agency bonds and tax-advantaged municipal bonds with maturities greater than one year, unless funds are specifically identified for current operations. We invest our cash, cash equivalents, short-term and long-term investments through various banks and investment banking institutions. This diversification of risk is consistent with our policy to maintain liquidity and ensure the collectibility of principal.

Management classifies investments as available-for-sale or held-to-maturity at the time of purchase and re-evaluates such designation at each balance sheet date, although classification is not generally changed. Securities are classified as held-to-maturity when we have the positive intent and the ability to hold the securities until maturity. Held-to-maturity securities are carried at cost adjusted for amortization of premiums and accretion of discounts to maturity. Such amortization, as well as any interest on the securities, is included in interest income. Available-for-sale securities are carried at fair value with the unrealized gains or losses, net of tax, included as a component of accumulated other comprehensive income in stockholders' equity. Realized gains and losses and declines in value judged to be other-than-temporary on available-for-sale securities are included in other income. The fair values for marketable debt and equity securities are based on quoted market prices. The cost of securities matured or sold is based on the specific identification method.

#### Inventories

Inventories are stated at the lower of cost (first-in, first-out) or market (estimated net realizable value) and are comprised of the following at March 31, 2000 and 1999:

In thousands	2000	1999
Raw materials	\$ 6,602	\$ 5,139
Work-in-progress	78,697	27,824
Finished goods	46,008	19,073
	<u>\$131,307</u>	<u>\$52,036</u>

## **Advances for Wafer Purchases**

In fiscal 1997, we signed an agreement with Seiko Epson, a primary wafer supplier. This agreement was amended in fiscal 1998 providing for an advance to Seiko Epson of \$150.0 million. In conjunction with the agreement, \$60.0 million was paid in fiscal 1997 and an additional \$90.0 million was paid in fiscal 1998. Repayment of this advance is made in the form of wafer deliveries, which began during the fourth quarter of fiscal 1998. The advance payment provision also provides for interest to be paid to us in the form of free wafers. Related interest income has been accrued and the accrued balance is offset as free wafers are received. Through March 31, 2000, we have received \$134.3 million in wafers against this advance, of which \$6.8 million was in the form of free wafers. Specific wafer pricing is in U.S. dollars and is based upon foundries with comparable technology, products and volume, and prices quoted by specific research firms for foundry prices for similar wafers.

## **Property, Plant and Equipment**

Property, plant and equipment are stated at cost. Depreciation for financial reporting purposes is computed using the straight-line method over the estimated useful lives of the assets of three to five years for machinery, equipment, furniture and fixtures and up to thirty years for buildings. Depreciation expenses totaled \$33.3 million, \$27.5 million and \$28.0 million for fiscal year 2000, 1999, and 1998, respectively.

## **Revenue Recognition**

We recognize revenue from product sales upon transfer of title to OEMs and end users. Reserves for sales returns and allowances are recorded at the time of shipment. As further explained in Note 3 of Notes to Consolidated Financial Statements, commencing in fiscal 1999, revenue on shipments to all distributors is deferred until products are sold by the distributors to end users. Prior to fiscal 1999, revenue on shipments to domestic distributors was deferred until resale to end users because arrangements with these distributors included returns and price protection privileges which could not be reasonably estimated. Revenue on all shipments to international distributors was recognized upon shipment to the distributor, with appropriate provision of reserves for returns and allowances.

## **Foreign Currency Translation**

The U.S. dollar is the functional currency for our Ireland manufacturing facility. Assets and liabilities that are not denominated in the functional currency are remeasured into U.S. dollars, and the resulting gains or losses are included in "Interest income and other." The functional currency is the local currency for each of our other foreign subsidiaries. Assets and liabilities are translated at month-end exchange rates, and statements of operations are translated at the average exchange rates during the year. Exchange gains or losses arising from translation of foreign currency denominated assets and liabilities are included as a component of accumulated other comprehensive income in stockholders' equity.

## **Derivative Financial Instruments**

As part of our ongoing asset and liability management activities, we periodically enter into certain derivative financial arrangements to reduce financial market risks. These instruments are used to hedge foreign currency, equity and interest rate market exposures of underlying assets and liabilities. We do not enter into derivative financial instruments for trading purposes.

We use forward currency exchange contracts to reduce financial market risks. Our sales to Japanese customers are denominated in yen while our purchases of processed silicon wafers from Japanese foundries are primarily denominated in U.S. dollars. Gains and losses on foreign currency forward contracts that are designated and effective as hedges of anticipated transactions, for which a firm commitment has been attained, are deferred and included in the basis of the transaction in the same period that the underlying transactions are settled. Gains and losses on any instruments not meeting the above criteria would be recognized in income in the current period. No currency forward contracts were outstanding as of March 31, 2000.

In fiscal 1999, our two and a half year interest rate swap agreement terminated. The interest rate swap agreement was in place in order to mitigate the interest rate risks whereby the long-term debt fixed interest rate liability was matched against our short-term variable interest rate assets. The liability interest rate swap agreement involved the exchange of fixed interest rate payments for variable interest rate payments over the life of the agreement without an exchange of the notional amount. The differential to be paid or received as the variable interest rate changes was accrued and recognized as interest expense. The related amounts payable or receivable from the third party was included in other liabilities or assets. For the period of time the swap was outstanding, the fair value of the swap agreement and changes in the fair value as a result of changes in market interest rates were not material. (See Note 5 of Notes to Consolidated Financial Statements.)



## **Employee Stock Plans**

We account for our stock option and employee stock purchase plans in accordance with provisions of the Accounting Principles Board's Opinion No. 25 (APB 25), "Accounting for Stock Issued to Employees." In addition, we disclose pro forma information related to our stock plans according to Financial Accounting Standards Board's Statement No. 123, "Accounting for Stock-Based Compensation" (FASB 123). (See Note 9 of Notes to Consolidated Financial Statements.)

## **Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and the reported amounts of net revenues and expenses during the reporting period. Such estimates relate to the useful lives of fixed assets and intangible assets, allowances for doubtful accounts, pricing adjustments, customer returns, international distributor sell-through, potential reserves relating to litigation matters as well as other accruals or reserves. Actual results may differ from those estimates, and such differences may be material to the financial statements.

## **New Accounting Pronouncements**

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, (FASB 133), "Accounting for Derivative Instruments and Hedging Activities," which requires adoption in fiscal years beginning after June 15, 2000 while earlier adoption is permitted at the beginning of any fiscal quarter. We are required to adopt by fiscal 2002. The effect of adopting the Standard is currently being evaluated but is not expected to have a material effect on our consolidated results of operations or financial position. FASB 133 will require us to recognize all derivatives on the balance sheet at fair value. Derivatives that are not hedges must be adjusted to fair value through income. If the derivative is a hedge, depending on the nature of the hedge, changes in the fair value of derivatives will either be offset against the change in fair value of the hedged assets, liabilities, or firm commitments through earnings or recognized in accumulated other comprehensive income until the hedged item is recognized in earnings. The ineffective portion, if any, of a derivative's change in fair value will be immediately recognized in earnings.

In December 1999, the Securities and Exchange Commission (SEC) issued SEC Staff Accounting Bulletin No. 101 (SAB 101), "Revenue Recognition in Financial Statements." SAB 101 summarizes certain of the SEC's views in applying generally accepted accounting principles to revenue recognition in financial statements. We have completed our review of SAB 101 and believe that our current revenue recognition policy is consistent with the guidance of SAB 101.

## **Concentrations of Credit Risk**

We attempt to mitigate the concentration of credit risk in our trade receivables with respect to the high-technology industry with our credit evaluation process, relatively short collection terms, distributor agreements, sales among various end-user applications throughout the high-technology market and the geographical dispersion of sales. We generally do not require collateral. Bad debt write-offs have been insignificant for all years presented.

## **Concentration of Other Risks**

The semiconductor industry is characterized by rapid technological change, intense competitive pressure and cyclical market patterns. Our results of operations are affected by a wide variety of factors, including general economic conditions, conditions specifically relating to technology companies and the semiconductor industry, decreases in average selling prices over the life of any particular product, the timing of new product introductions (by us, our competitors and others), the ability to manufacture sufficient quantities of a given product in a timely manner, the timely implementation of new manufacturing process technologies, the ability to safeguard patents and intellectual property from competitors, and the impact of new technologies resulting in rapid escalation of demand for some products in the face of equally steep decline in demand for others. Based on the factors noted herein, we may experience substantial period-to-period fluctuations in future operating results.

## **Note 3. Accounting Change – Deferred Revenue Recognition on Sales to International Distributors**

During the fourth quarter of fiscal 1999, we changed our accounting method for recognizing revenue on all shipments to international distributors. The change was made retroactive to the beginning of fiscal 1999. While we previously deferred

revenue on shipments to domestic distributors until the products were sold to the end user, we recognized revenue upon shipment to international distributors, net of appropriate reserves for returns and allowances. Following the accounting change, revenue recognition on shipments to distributors worldwide is deferred until the products are sold to the end customer. We believe that deferral of revenue on shipments to distributors until the product is shipped by the distributor to an end customer is a more meaningful measurement of results of operations as it better conforms to the substance of the transaction considering the changing business environment in the international marketplace, and is consistent with industry practice. The cumulative effect of the change in accounting method for prior years was a charge of \$26.6 million, net of \$12.0 million in taxes, or \$0.09 net income per diluted share.

## Note 4. Joint Venture

Xilinx, United Microelectronics Corporation (UMC) and other parties entered into a joint venture to construct a wafer fabrication facility in Taiwan, known as United Silicon Inc. (USIC). We had a 20% equity ownership in USIC and had the right to receive up to 31.25% of the wafer capacity from this facility. We accounted for this investment using the equity method of accounting with a one-month lag in recording our share of results for the entity. In fiscal 2000 net gains were generated as USIC entered volume wafer production and shipment, while the fiscal 1999 net loss was a result of the continued ramp up in production of the wafer fabrication facility. The fiscal 1998 net income resulted primarily from favorable foreign currency exchange gains as well as interest earned on the USIC investment portfolio. Through the second quarter of fiscal 1998, equity income was immaterial and remained classified in "Interest income and other."

In January 2000, our equity position in USIC was converted into shares of UMC which are publicly traded on the Taiwan Stock Exchange. We recognized a gain of \$674.7 million (\$398.1 million net of taxes) in our fiscal 2000 fourth quarter as a result of the merger of USIC with UMC. The gain represents the appreciation of our investment in USIC. As a result of this merger, we own approximately 222 million shares of UMC common stock, which represent approximately 2% of the combined UMC Group. We retain equivalent wafer capacity rights in UMC as we previously had in USIC, as long as we retain a percentage of our shares of UMC common stock. If our holdings fall below this level, our wafer capacity rights would be decreased prorated by the UMC shares we hold.

Due to restrictions imposed by UMC and the Taiwan Stock Exchange, the majority of our UMC shares may not be sold until July 2000. These regulatory restrictions will gradually expire between July 2000 and January 2004. At March 31, 2000, the restricted portion of our UMC investment totaled \$396.5 million.

## Note 5. Financial Instruments

### Cash and Investments

The following is a summary of available-for-sale securities:

In thousands	March 31, 2000				March 31, 1999			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Money market funds	\$ 93,172	\$ —	\$ —	\$ 93,172	\$ 34,829	\$ —	\$ —	\$ 34,829
Commercial paper	62,712	—	—	62,712	—	—	—	—
U.S. Treasury notes	5,005	—	—	5,005	2,071	8	—	2,079
Auction rate preferred	335,039	1	(14)	335,026	262,007	25	(10)	262,022
Government								
agency bonds	9,925	—	(142)	9,783	—	—	—	—
Municipal bonds	300,897	370	(1,513)	299,754	178,425	437	(73)	178,789
Investment in UMC	396,509	45,904	—	442,413	—	—	—	—
	<u>\$1,203,259</u>	<u>\$46,275</u>	<u>\$(1,669)</u>	<u>\$1,247,865</u>	<u>\$477,332</u>	<u>\$470</u>	<u>\$(83)</u>	<u>\$477,719</u>
Included in:								
Cash and cash equivalents				\$ 98,177				\$ 34,829
Short-term investments				522,202				348,888
Long-term investments				185,073				94,002
Investment in UMC				442,413				—
				<u>\$1,247,865</u>				<u>\$477,719</u>

At March 31, 1999, held-to-maturity investments totaled \$34.4 million held in a restricted certificate of deposit for which cost approximated market value. In fiscal 2000, we sold the held-to-maturity investment of \$34.4 million, resulting in no gain or loss, in order to purchase three buildings at our San Jose corporate facility. No investments were held to maturity as of March 31, 2000.

## Derivatives

In fiscal 2000, we utilized forward currency contracts to protect against the net yen exposure created when we began purchasing most of our wafers from Japanese suppliers in U.S. dollars yet continued to invoice Japanese customers in yen. Realized losses of \$ 0.5 million in fiscal 2000 and \$2.3 million in fiscal 1999 were offset against revenue when there was a firm commitment, otherwise they were included in "Interest income and other." At March 31, 2000 and 1999, no commitments under foreign currency forward or option contracts were outstanding.

In fiscal 1997, we entered into an interest rate swap agreement with a third party in order to reduce risk related to movements in interest rates. Under the agreement, we effectively converted the fixed rate interest payments related to \$125.0 million of our convertible long-term debt to variable rate interest payments without the exchange of the underlying principal amounts. We received fixed interest rate payments (equal to 5.935%) from the third party and were obligated to make variable rate payments (equal to the three month Libor rate) to the third party during the term of the agreement. In fiscal 1999, the interest rate swap agreement terminated, resulting in an immaterial gain. For the period of time the swap was outstanding, the fair value of the swap agreement and changes in the fair value as a result of changes in market interest rates were not material.

In fiscal 1997, we entered into foreign exchange forward contracts to minimize the impact of future exchange fluctuations on the U.S. dollar cost of investing in the USIC joint venture. The contracts required us to exchange U.S. dollars for New Taiwan dollars and matured within one year. The contracts were accounted for as a hedge of an identifiable foreign currency commitment.

## Lines of Credit

We have \$40 million available under a syndicated bank revolving credit line agreement, which expires in March 2001. Under this agreement, borrowings bear interest at the prime rate or 0.625% over the Libor rate. Additionally, our Ireland manufacturing facility has an additional \$6.2 million available under a multicurrency credit line, which expires in November 2000. Under this agreement, borrowings bear interest at the bank's prime rate or 0.75% over the Euribor rate. At March 31, 2000, no borrowings were outstanding under any credit lines. We are in full compliance with the agreement's required covenants and financial ratios. The agreements prohibit the payment of cash dividends without prior bank approval.

In fiscal 1999, we converted in full \$250.0 million of 5<sup>1</sup>/<sub>4</sub>% Convertible Subordinated Notes due 2002 for a total of 19.6 million shares of common stock at a price of \$12.75 per share.

## Note 6. Commitments

We lease some of our manufacturing and office facilities under operating leases that expire at various dates through December 2014. Lease agreements for certain corporate facilities contain payment provisions, which allow for changes in rental amounts based upon interest rate changes. The approximate future minimum lease payments under operating leases are as follows:

In thousands Years ended March 31,	
2001	\$ 2,671
2002	2,526
2003	2,294
2004	1,511
2005	1,302
Thereafter	1,590
	<hr/>
	\$11,894

Rent expense was approximately \$7.3 million for fiscal 2000, and \$4.5 million each for fiscal years 1999 and 1998. The increased rent expense is due to expansion at our corporate facility.

During fiscal 1998, we entered into an agreement for a facility to be built on property adjacent to our corporate facilities which was completed in fiscal 2000. Upon signing the lease agreement, we paid the lessor \$31.3 million for prepaid rent and an option to purchase the facility. The rent prepayment covered one year and was discounted to its present value. We exercised the lease agreement's purchase option in fiscal 2000 and the prepaid purchase option was considered payment in full.

In December 1999, we exercised another option to purchase three buildings previously leased at our San Jose corporate facility. The restricted investment of \$34.4 million related to certain collateral requirements on the building leases was used to purchase the three buildings.

## Note 7. Net Income Per Share

Basic net income per share is computed by dividing net income by the weighted average number of common shares outstanding during the period. In computing diluted net income per share, the average stock price for the period is used in determining the number of shares assumed to be purchased from the exercise of stock options. Diluted earnings per share is computed using the weighted average common and dilutive common equivalent shares outstanding.

The computation of basic net income per share for all years presented is derived from the information on the face of the income statement, and there are no reconciling items in either the numerator or denominator. Additionally, there are no reconciling items in the numerator used to compute diluted net income per share. The total shares used in the denominator of the diluted net income per share calculation includes 26.8 million, 15.8 million and 25.1 million incremental common shares attributable to outstanding options for fiscal years 2000, 1999 and 1998, respectively.

Before the long-term debt was converted to equity in the amount of approximately 19.6 million common shares, they were not included in the calculation of diluted net income per share, as their inclusion would have had an anti-dilutive effect for all periods presented. Outstanding options to purchase approximately 0.3 million, 9.6 million and 7.4 million shares, for the fiscal years 2000, 1999 and 1998, respectively, under the Company's Stock Option Plans were not included in the treasury stock calculation to derive diluted net income per share as their inclusion would have had an anti-dilutive effect. In addition, the put warrants disclosed in Note 9 did not have any impact on basic or diluted net income per share in the year ended March 31, 2000 as their inclusion would have had an anti-dilutive effect.

## Note 8. Comprehensive Income

We adopted Statement of Financial Accounting Standards No. 130 (FASB 130), "Reporting Comprehensive Income" in the first quarter of fiscal 1999. FASB 130 established standards for the reporting and disclosure of comprehensive income and its components; however, the disclosure has no impact on our consolidated results of operations, financial position or cash flows. Comprehensive income is defined as the change in equity of a company during a period resulting from certain transactions and other events and circumstances, excluding transactions resulting from investments by owners and distributions to owners. The difference between net income and comprehensive income for Xilinx is from foreign currency translation adjustments and unrealized gains or losses on our available-for-sale securities.

The components of comprehensive income for the fiscal years 2000, 1999 and 1998 are as follows:

In thousands March 31,	2000	1999	1998
Net income	\$652,450	\$102,592	\$126,587
Cumulative translation adjustment	17,606	(434)	(16,604)
Unrealized gain on available for sale securities, net of tax	26,073	130	19
Comprehensive income	\$696,129	\$102,288	\$110,002

The components of accumulated other comprehensive income (loss) for the fiscal years 2000, 1999, and 1998 are as follows:

in thousands March 31,	2000	1999	1998
Cumulative translation adjustment	\$ (49)	\$(17,655)	\$(17,221)
Unrealized gain on available for sale securities, net of tax	26,305	232	102
Accumulated other comprehensive income (loss)	\$26,256	\$(17,423)	\$(17,119)

## Note 9. Stockholders' Equity

In December 1999, Xilinx stockholders voted to approve an amendment to the Company's Certificate of Incorporation to increase the number of authorized shares from 300 million to 500 million. The Company's Certificate of Incorporation also provides for 2 million shares of undesignated preferred stock.

### Treasury Stock and Put Options

We authorized a stock buyback program in December 1997 whereby up to 8 million shares of our common stock could be purchased in the open market from time to time as market and business conditions warranted. This program was completed in November 1998. In April and September 1998, additional stock repurchase programs were authorized to each buyback up to 12 million shares of our common stock. We have reissued treasury shares repurchased in response to Employee Stock Option exercises and Employee Qualified Stock Purchase Plan requirements as well as in conjunction with our redemption of convertible debt. During fiscal 2000 and 1999, we repurchased a total of 0.2 million and 11.2 million shares of common stock for \$5.3 million and \$113.8 million, respectively. In fiscal 2000 and 1999, 0.5 million and 16.8 million shares were reissued, respectively. We were not holding any treasury shares as of March 31, 2000. In conjunction with the stock repurchase program, during fiscal 2000, we sold put warrants that entitle the holder of each warrant to sell to us, by physical delivery, one share of common stock at a specified price, ranging from \$33 to \$42 per share. The outstanding put warrants will expire at various dates through October 2000. As of March 31, 2000, we have 1.2 million shares of outstanding put warrants.

### Stock Split

On October 18, 1999, our Board of Directors approved a 2 for 1 split of our Common Stock, which was effected in the form of a 100% stock dividend. On December 27, 1999, stockholders of record as of December 17, 1999 received one additional share of Common Stock for every share held. Shares, per share amounts, common stock at par value, and additional paid-in capital have been restated to reflect the stock split for all periods presented.

### Stockholder Rights Plan

In October 1991, we adopted a stockholder rights plan and declared a dividend distribution of one preferred stock purchase right for each outstanding share of common stock. The rights become exercisable based upon the occurrence of certain conditions including acquisitions of Company stock, tender or exchange offers and certain business combination transactions of the Company. In the event one of the conditions is triggered, each right entitles the registered holder to purchase a number of shares of preferred stock of the Company or, under limited circumstances, of the acquirer. The rights are redeemable at the Company's option, under certain conditions, for \$.01 per right and expire on October 4, 2001.

### Employee Stock Option Plans

Under existing stock option plans (Option Plans), options reserved for future issuance to employees and directors of the Company total 83.9 million shares as of March 31, 2000. Options to purchase shares of our common stock under the Option Plans are granted at 100% of the fair market value of the stock on the date of grant. Options granted to date expire ten years from date of grant and vest at varying rates over four or five years.

A summary of our Option Plans activity, and related information are as follows:

Years ended March 31,	2000		1999		1998	
	Shares (000)	Weighted Average Exercise Price	Shares (000)	Weighted Average Exercise Price	Shares (000)	Weighted Average Exercise Price
Outstanding at beginning of year	63,158	\$ 9.50	58,098	\$ 6.67	54,832	\$ 5.14
Granted	4,149	37.24	18,560	15.04	11,916	11.95
Exercised	(10,997)	6.03	(10,844)	3.98	(6,160)	2.68
Forfeited	(977)	13.74	(2,656)	9.03	(2,490)	7.94
Outstanding at end of year	55,333	\$12.19	63,158	\$ 9.50	58,098	\$ 6.67
Shares available for grant	28,564		5,624		15,540	

The following information relates to options outstanding and exercisable under the Option Plan at March 31, 2000:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Options Outstanding (000)	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Options Exercisable (000)	Weighted Average Exercise Price
\$ 0.50 – \$ 7.88	14,387	4.19	\$ 4.30	13,923	\$ 4.21
\$ 7.91 – \$ 9.97	18,601	7.00	9.03	10,969	8.88
\$ 9.98 – \$21.81	18,368	7.93	16.01	8,560	14.08
\$24.75 – \$69.19	3,977	9.47	37.85	152	32.26
\$ 0.50 – \$69.19	55,333	6.75	\$12.19	33,604	\$ 8.37

At March 31, 1999, 31.9 million options were exercisable at an average price of \$6.42.

### Employee Qualified Stock Purchase Plan

Under our 1990 Employee Qualified Stock Purchase Plan (Stock Purchase Plan), qualified employees can elect to have up to 15 percent of their annual earnings withheld, up to a maximum of \$21,250, to purchase our common stock at the end of six-month enrollment periods. The purchase price of the stock is 85% of the lower of the fair market value at the beginning of the twenty-four month offering period or at the end of each six-month purchase period. Almost all employees are eligible to participate. Under this plan, 2.3 million and 1.6 million shares were issued during 2000 and 1999, respectively, and 9.4 million shares were available for issuance at March 31, 2000.

### Stock-Based Compensation

As permitted under FASB Statement No. 123, "Accounting for Stock-Based Compensation" (FASB 123), we have elected to continue to follow Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" (APB 25) and related Interpretations in accounting for our stock-based awards to employees. Under APB 25, the Company generally recognizes no compensation expense with respect to such awards.

Pro forma information regarding net income and earnings per share is required by FASB 123 and has been determined as if we had accounted for awards to employees under the fair value method of FASB 123. The fair value of stock options and stock purchase plan rights under the Option Plans and Stock Purchase Plan was estimated as of the grant date using the Black-Scholes option pricing model. The Black-Scholes model was originally developed for use in estimating the fair value of traded options and requires the input of highly subjective assumptions including expected stock price volatility. Our stock options and stock purchase plan rights have characteristics significantly different from those of traded options, and changes in the subjective input assumptions can materially affect the fair value estimate. The fair value of stock options and stock purchase plan rights granted in fiscal years 2000, 1999 and 1998 were estimated at the date of grant assuming no expected dividends and the following weighted average assumptions.

Years ended March 31,	Stock Options			Stock Purchase Plan Rights		
	2000	1999	1998	2000	1999	1998
Expected life (years)	3.50	3.00	3.00	0.50	0.50	0.50
Expected stock price volatility	0.65	0.65	0.62	0.67	0.64	0.65
Risk-free interest rate	5.80%	5.00%	6.00%	5.30%	5.00%	5.50%

For purposes of pro forma disclosures, the estimated fair value of stock-based awards is amortized against pro forma net income over the stock-based awards' vesting period. Had we accounted for stock-based awards to employees under FASB 123, our net income would have been \$560.3 million, \$65.2 million, and \$95.6 million in 2000, 1999, and 1998, respectively. Basic net income per share would have been \$1.73, \$0.22, and \$0.32 in 2000, 1999, and 1998, respectively, while diluted net income per share would have been \$1.60, \$0.21, and \$0.31, respectively.

Calculated under FASB 123, the weighted-average fair value of the stock options granted during 2000, 1999, and 1998 was \$18.87, \$6.90, and \$5.34 per share, respectively. The weighted-average fair value of stock purchase rights granted under the Stock Purchase Plan during 2000, 1999, and 1998 were \$18.19, \$4.98, and \$3.63 per share, respectively.

## Note 10. Income Taxes

<b>In thousands</b> <b>Years ended March 31,</b>	<b>2000</b>	<b>1999</b>	<b>1998</b>
Federal:			
Current	\$ 97,019	\$45,482	\$45,808
Deferred	217,969	(3,558)	(3,880)
	314,988	41,924	41,928
State:			
Current	15,851	9,187	9,285
Deferred	36,475	(3,049)	(311)
	52,326	6,138	8,974
Foreign:			
Current	10,692	6,863	5,826
Total	\$378,006	\$54,925	\$56,728

The tax benefits associated with the disqualifying dispositions of stock options or employee stock purchase plan shares reduced taxes currently payable by \$112.1 million, \$34.9 million, and \$16.1 million for fiscal 2000, 1999, and 1998, respectively. Such benefits are credited to additional paid-in capital when realized. Pretax income from foreign operations was \$106.4 million, \$61.2 million, and \$55.5 million for fiscal years 2000, 1999, and 1998, respectively. Unremitted foreign earnings that are considered to be permanently invested outside the United States and on which no deferred taxes have been provided, accumulated to approximately \$111.7 million as of March 31, 2000. The residual U.S. tax liability, if such amounts were remitted, would be approximately \$27.9 million.

The provision for income taxes reconciles to the amount obtained by applying the Federal statutory income tax rate to income before provision for taxes as follows:

<b>In thousands</b> <b>Years ended March 31,</b>	<b>2000</b>	<b>1999</b>	<b>1998</b>
Income before provision for taxes	\$349,544	\$189,399	\$180,596
Federal statutory tax rate	35%	35%	35%
Computed expected tax	\$122,340	\$ 66,290	\$ 63,209
State taxes net of federal benefit	7,697	3,990	5,833
Tax exempt interest	(5,472)	(3,822)	(4,003)
Foreign earnings at lower tax rates	(15,370)	(4,415)	(4,586)
Research and development tax credit	(4,189)	(3,999)	(3,007)
Other	(3,638)	(3,119)	(718)
Provision for taxes before capital gain	101,368	54,925	56,728
Tax on capital gain from UMC merger	276,638	—	—
Provision for taxes on income	\$378,006	\$ 54,925	\$ 56,728

The major components of deferred tax assets and liabilities consist of the following:

<b>In thousands</b> <b>Years ended March 31,</b>	<b>2000</b>	<b>1999</b>
Deferred tax assets:		
Inventory valuation differences	\$ 10,725	\$ 10,347
Deferred income on shipments to distributors	76,262	49,449
Nondeductible accrued expenses	5,948	5,666
Other	(1,453)	(30)
<b>Total</b>	<b>91,482</b>	<b>65,432</b>
Deferred tax liabilities:		
Depreciation and amortization	4,023	3,908
Unremitted foreign earnings	(36,453)	(26,576)
Capital gain from merger of USIC with UMC	(276,638)	–
Current net value of investments	(18,313)	–
Other	617	(1,065)
<b>Total</b>	<b>(326,764)</b>	<b>(23,733)</b>
<b>Total net deferred tax (liabilities) assets</b>	<b>\$(235,282)</b>	<b>\$ 41,699</b>

## Note 11. Segment Information

We operate and track our results in one operating segment. We design, develop and market programmable logic semiconductor devices and the related software design tools.

Enterprise wide information is provided in accordance with FASB 131. Geographic revenue information for the fiscal years 2000, 1999, and 1998 is based on the shipment location. Long-lived assets include property, plant and equipment as well as intangible assets including developed technology, assembled workforce and goodwill. Property, plant and equipment information is based on the physical location of the asset at the end of each fiscal year while the intangible assets are based on the location of the owning entity.

Net revenues from unaffiliated customers by geographic region were as follows:

<b>In thousands</b> <b>Years ended March 31,</b>	<b>2000</b>	<b>1999</b>	<b>1998</b>
United States	\$ 681,078	\$447,147	\$381,357
Europe	201,772	139,815	137,131
Japan	82,581	47,522	62,668
Southeast Asia/Rest of World	55,562	27,499	32,437
	<b>\$1,020,993</b>	<b>\$661,983</b>	<b>\$613,593</b>

Net long-lived assets by country were as follows:

<b>In thousands</b> <b>Years ended March 31,</b>	<b>2000</b>	<b>1999</b>
United States	\$207,769	\$ 77,856
Ireland	35,370	27,888
Other	26,375	10,360
	<b>\$269,514</b>	<b>\$116,104</b>

No end customer accounted for more than 10% of revenues in 2000, 1999, or 1998. Approximately 27%, 20% and 14% of net revenues were recognized through our largest domestic distributor in 2000, 1999, and 1998, respectively. A second domestic distributor accounted for approximately 24%, 17% and 11% of net revenues in fiscal 2000, 1999 and 1998, respectively.



## Note 12. Litigation

On June 7, 1993, we filed suit against Altera Corporation (Altera) in the United States District Court for the Northern District of California for infringement of certain of our patents. Subsequently, Altera filed suit against Xilinx, alleging that certain of our products infringe certain Altera patents. Fact and expert discovery have been completed in both cases, which have been consolidated. Both Altera and Xilinx filed motions with the Court for summary judgement with respect to certain of the issues pending in the litigation. In October 1999, the Court ruled on all but one of the motions. As a result of those rulings, Altera is left with one claim against Xilinx, which remains the subject of a Company motion for summary judgment. A ruling on this motion is pending. The Court's rulings also dismissed certain claims by us, leaving intact claims of infringement under two Company patents by Altera. The remaining claims against Altera will be decided at a trial scheduled to begin in October, 2000. If the remaining claim against Xilinx survives the motion for summary judgment, it will be decided at a trial, which is currently scheduled to commence on June 19, 2000.

On April 20, 1995, Altera filed an additional suit against Xilinx in the Federal District Court in Delaware, alleging that our XC5200 family infringes an Altera patent. We answered the Delaware suit denying that the XC5200 family infringes the patent in suit, asserting certain affirmative defenses and counterclaiming that the Altera Max 9000 family infringes certain of our patents. The Delaware suit was transferred to the United States District Court for the Northern District of California.

On July 22, 1998, Altera and Joseph Ward, a former Xilinx employee, filed suit against Xilinx in Superior Court in Santa Clara County, California, arising out of our efforts to prevent disclosure of certain Company confidential information. Altera's suit requests declaratory relief and claims Xilinx engages in unfair business practices and interference with contractual relations. On September 10, 1998 we filed cross claims against Altera and Ward for unfair competition and breach of contract, among other claims, in the California action. On October 20, 1998, Altera and Ward filed crossclaims against Xilinx for malicious prosecution of civil action and defamation. On September 15, 1999, the Court dismissed all of our claims against Altera and Mr. Ward, finding that we were unable to show any damages we suffered as a result of any actions by Mr. Ward. Claims against Xilinx are still pending.

The ultimate outcome of these matters cannot be determined at this time. Management believes that it has meritorious defenses to such claims and is defending them vigorously. The foregoing is a forward-looking statement subject to risks and uncertainties, and the future outcome of these matters could differ materially due to the uncertain nature of each legal proceeding and because the lawsuits are still in the pre-trial stages.

On July 31, 1998, the Lemelson Foundation Partnership (Lemelson) filed a lawsuit in the United States District Court in Phoenix, Arizona against the Company and twenty-five (25) other United States semiconductor companies for infringement of certain of its patents. During the third quarter of fiscal 1999, we entered into a license settlement with Lemelson. In response, Lemelson dismissed with prejudice all claims against us.

There are no other pending legal proceedings of a material nature to which we are a party or of which any of our property is the subject. We know of no legal proceedings contemplated by any governmental authority or agency.

## Note 13. Write-off of In-Process Technology

We completed the acquisition of Philips Semiconductors' line of low-power complex programmable logic devices (CPLDs) on August 2, 1999. The total cost, including acquisition related fees, was approximately \$22.8 million. The purchase price allocation, based on an independent appraisal, resulted in a \$4.6 million charge to research and development in the second quarter of fiscal 2000. The acquired in-process technology represents the appraised value of technologies in the development stage that had not yet reached technological feasibility and does not have alternative future uses.

In January 1999, we acquired certain assets of MI Acquisition LLP, for a total purchase price of \$6.8 million. The purchase price allocation, based on an independent appraisal, resulted in a \$3.6 million charge to research and development in the fourth quarter of fiscal 1999 for acquired in-process technology. The acquired in-process technology represents the appraised value of technology in the development stage that had not yet reached technological feasibility and does not have alternative future uses.

## Note 14. Subsequent Event

On May 31, 2000, Altera filed an additional suit against Xilinx in the Federal District Court for the Northern District of California, alleging that certain Xilinx products, including our Virtex™ FPGAs, infringe three Altera patents. Altera's suit requests unspecified monetary damages as well as issuance of an injunction to prevent Xilinx from selling allegedly infringing parts. Xilinx has not yet had the opportunity to fully review this latest suit and investigate the facts related thereto, and therefore can make no comment as to its likely outcome.

## Report of Ernst & Young LLP, Independent Auditors

The Board of Directors and Stockholders  
Xilinx, Inc.

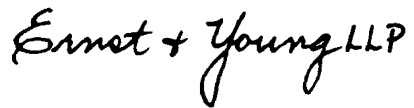
We have audited the accompanying consolidated balance sheets of Xilinx, Inc. as of March 31, 2000 and 1999, and the related consolidated statements of income, stockholders' equity and cash flows for each of the three years in the period ended March 31, 2000. Our audits also included the financial statement schedule listed in the Index at Item 14(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Xilinx, Inc. at March 31, 2000 and 1999, and the consolidated results of its operations and its cash flows for each of the three years in the period ended March 31, 2000, in conformity with accounting principles generally accepted in the United States. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

As discussed in Notes 2 and 3 to the consolidated financial statements, in the fiscal year ended March 31, 1999, the Company changed its method of recognizing revenue on certain shipments to its distributors.

San Jose, California  
April 18, 2000  
except for Note 14, as to which the date is  
May 31, 2000

The image shows the handwritten signature of Ernst & Young LLP in black ink. The signature is written in a cursive, flowing style, with the words "Ernst & Young" followed by "LLP".

## Schedule II Valuation and Qualifying Accounts

In thousands Description	Beginning of Year	Charged to Income	Deductions <sup>1</sup>	Balance at End of Year
For the year ended March 31, 1998:				
Allowance for doubtful accounts, pricing adjustments and customer returns	\$5,734	\$ 5,637	\$2,963	\$ 8,408
For the year ended March 31, 1999:				
Allowance for doubtful accounts, pricing adjustments and customer returns	\$8,408	\$ 2,129	\$3,128	\$ 7,409
For the year ended March 31, 2000:				
Allowance for doubtful accounts, pricing adjustments and customer returns	\$7,409	\$13,985	\$5,855	\$15,539

<sup>1</sup> Represents amounts written off against the allowance, customer returns or pricing adjustments to international distributors.

## Supplementary Financial Data Quarterly Data (Unaudited)

In thousands, except per share amounts Year ended March 31, 2000	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Net revenues	\$211,403	\$238,762	\$264,259	\$306,569
Gross margin	131,645	148,557	164,683	192,070
Net income	51,615	55,974	68,504	476,357 <sup>1</sup>
Net income per share:				
Basic	\$ 0.16	\$ 0.18	\$ 0.21	\$ 1.47 <sup>1</sup>
Diluted	\$ 0.15	\$ 0.16	\$ 0.20	\$ 1.36 <sup>1</sup>
Shares used in per share calculations:				
Basic	313,865	317,534	319,891	323,397
Diluted	336,825	343,007	346,162	351,461

<sup>1</sup> Net income includes a \$398,089 capital gain (net of taxes) from the UMC/USIC merger, or \$1.23 per basic share and \$1.13 per diluted share.

In thousands, except per share amounts Year ended March 31, 1999	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
<b>Net revenues</b>				
As previously reported	\$151,603	\$156,443	\$167,357	\$184,310
Effect of change in accounting principle	(2,078)	72	4,276	–
As restated in first three quarters and reported in fourth quarter	149,525	156,515	171,633	184,310
Gross margin				
As previously reported	94,780	97,629	101,395	115,216
Effect of change in accounting principle	(1,475)	50	3,122	–
As restated in first three quarters and reported in fourth quarter	93,305	97,679	104,517	115,216
<b>Net income</b>				
As previously reported	27,029	27,831	33,919	39,254
Effect of change in accounting principle	(27,664)	35	2,188	–
As restated in first three quarters and reported in fourth quarter	\$ (635)	\$ 27,866	\$ 36,107	\$ 39,254
<b>Net income per basic share</b>				
Earnings per share before cumulative effect of change in accounting principle				
As previously reported	\$ 0.09	\$ 0.10	\$ 0.12	\$ 0.13
Effect of change in accounting principle	–	–	0.01	–
As restated in first three quarters and reported in fourth quarter	0.09	0.10	0.13	0.13
Cumulative effect of change in accounting principle	(0.09)	–	–	–
Earnings after cumulative effect of change in accounting principle	–	0.10	0.13	0.13
<b>Net income per diluted share</b>				
Earnings per share before cumulative effect of change in accounting principle				
As previously reported	0.09	0.10	0.11	0.12
Effect of change in accounting principle	–	–	0.01	–
As restated in first three quarters and reported in fourth quarter	0.09	0.10	0.12	0.12
Cumulative effect of change in accounting principle	(0.09)	–	–	–
Earnings after cumulative effect of change in accounting principle	\$ –	\$ 0.10	\$ 0.12	\$ 0.12
Shares used in per share calculations:				
Basic	291,372	287,647	287,639	304,713
Diluted	307,352	299,522	302,325	325,281

Item 9. Changes In and Disagreements with Accountants  
on Accounting and Financial Disclosure

Not applicable.