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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. The reader should not place undue reliance on these forward-looking statements. Our actual results could differ materially from those anticipated in these forward-looking statements for many reasons, including those risks discussed under "Factors Affecting Future Operating Results" and elsewhere in this document. 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 designs, develops and markets complete programmable logic solutions, including advanced ICs, software design tools, predefined system functions delivered as IP cores, design services, customer training, field engineering and technical support. Our PLDs include FPGAs and CPLDs. These devices are standard products that our customers program to perform desired logic operations. Our products are designed to provide high integration and quick time-to-market for electronic equipment manufacturers primarily in the telecommunications, networking, computing, industrial, and consumer markets. We market our products throughout the world through a direct sales management organization, direct sales to OEMs by independent sales representative firms, and sales through several franchised domestic and foreign distributors.

Critical Accounting Policies

The methods, estimates and judgments we use in applying our most critical accounting policies have a significant impact on the results we report in our financial statements. The U.S. Securities and Exchange Commission has defined the most critical accounting policies as the ones that are most important to the portrayal of our financial condition and results, and require us to make our most difficult and subjective judgments, often as a result of the need to make estimates of matters that are inherently uncertain. Based on this definition, our most critical policies include: valuation of financial instruments, which impacts gains (losses) on equity securities when we record impairments; revenue recognition, which impacts the recording of revenues; valuation of inventories, which impacts cost of revenues and gross margin; and the assessment of recoverability of long-lived assets including goodwill and other intangible assets, which impacts write-offs of goodwill and other intangibles. Below, we discuss these policies further, as well as the estimates and judgments involved. We also have other key accounting policies that either do not generally require us to make estimates and judgments that are as difficult or as subjective, or it is less likely that they would have a material impact on our reported results of operations for a given period.

Valuation of Financial Instruments

The Company's short-term and long-term investments include investments in marketable equity and debt securities. The Company also has an equity investment in UMC, a public semiconductor wafer manufacturing company, of \$380.4 million at March 31, 2002. In determining if and when a decline in market value below cost of these investments is other-than-temporary, as required by SFAS 115, the Company evaluates the market conditions, offering prices, trends of earnings, price multiples, and other key measures for our investments in marketable equity securities and debt instruments. When such a decline in value is deemed to be other-than-temporary, the Company recognizes an impairment loss in the current period operating results to the extent of the decline. Due to the slowdown in the semiconductor industry and economic recession in fiscal 2002 and 2001, the market value of the Company's UMC investment declined significantly. These declines were deemed to be other-than-temporary and losses of \$191.9 million and \$362.1 million, respectively, were recognized. If the slowdown in the semiconductor industry continues in fiscal 2003 or beyond, the Company may recognize additional losses on these investments.

Revenue Recognition

Sales to distributors are made under agreements providing price protection and rights of return under certain circumstances. Revenue and costs relating to distributor sales are deferred until products are sold by the distributors to customers or electronic manufacturing service companies which are used by many of our key OEMs. Accounts receivable from distributors are recognized and inventory is relieved upon shipment as title to inventories generally transfers upon shipment at which point we have a legally enforceable right to collection under normal payment terms.

Revenue from sales to our direct customers is recognized upon shipment provided that persuasive evidence of a sales arrangement exists, the price is fixed, title has transferred, collection of resulting receivables is reasonably assured, there are no customer acceptance requirements and there are no remaining significant obligations. For each of the periods presented, there were no formal acceptance provisions with our end customers.

Reserves for sales returns and allowances are recorded at the time of shipment.

Inventories

Inventories are stated at the lower of cost (determined using the first-in, first-out method), or market. Given the cyclicity of the market and the obsolescence of technology and shorter product life cycles, the Company writes down inventories to net realizable value based on backlog and forecasted demand. However, backlog is subject to revisions, cancellations, and rescheduling. Actual demand may differ from forecasted demand and such difference may have a material effect on the Company's gross margins. The

Company's standard cost revision policy is to continuously review and monitor our standard costs based on current manufacturing costs. The Company's excess and obsolescence reserve policy is generally to reserve inventory in excess of nine months of forecasted demand. During fiscal 2002 and 2001, we had significant write-downs of inventory due to a sharp decrease in backlog and forecasted demand due to a worldwide economic slowdown as well as a significant standards revision resulting from lower manufacturing costs. The Company's reserve policy on new products is to reserve all inventory at standard cost until the devices are production released.

Long-Lived Assets Including Goodwill

We will adopt Financial Accounting Standards Board (FASB) Statements of Financial Accounting Standards No. 141, "Business Combinations" (SFAS 141) and No. 142, "Goodwill and Other Intangible Assets" (SFAS 142) on March 31, 2002. Accordingly, we will no longer amortize goodwill from acquisitions, but will continue to amortize other acquisition-related intangibles. Consequently, we expect amortization of intangibles to be approximately \$15.3 million for fiscal 2003, down from \$49.0 million of amortization of goodwill and other acquisition related intangibles in fiscal 2002.

In conjunction with the implementation of the new accounting rules for goodwill, effective March 31, 2002, the first day of the Company's new fiscal year, we completed a goodwill impairment review for the RocketChips acquisition, which represents the Company's only goodwill, and found no impairment. At March 31, 2002, the unamortized balance of goodwill was \$100.7 million. According to our accounting policy under the new rules, we will perform a similar review annually, or earlier if indicators of potential impairment exist. Our impairment review is based on a discounted cash flow approach that uses our estimates of future market share and revenues and costs for these groups as well as appropriate discount rates. The estimates we have used are consistent with the plans and estimates that we are using to manage the underlying businesses. If we fail to deliver new products, if the products fail to gain expected market acceptance, or if market conditions in the telecommunications businesses fail to improve, our revenue and cost forecasts may not be achieved, and we may incur charges for impairment of goodwill.

We evaluate the carrying value of certain long-lived assets and acquired intangible assets in accordance with SFAS 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of". SFAS 121 requires recognition of impairment losses on long-lived assets in the event that the carrying value of such assets exceeds the fair values. When we have indicators of impairment, we review our long-lived assets and acquired intangible assets for impairment based on estimated future undiscounted cash flows attributable to the assets. In the event such cash flows are not expected to be sufficient to recover the recorded value of the assets, the assets are written down to their estimated fair values based on the expected discounted future cash flows attributable to the assets. Impairment evaluations require management estimates in the forecast of future operating results that are used in the preparation of expected future undiscounted cash flows. Actual future cash flows and remaining economic lives could differ from management's estimates used to assess the recoverability of these assets. This could require additional impairment charges.

In August 2001, the FASB issued SFAS 144 "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS 144 supercedes SFAS 121. SFAS 144 requires that one accounting model be used for long-lived assets to be disposed of by sale, whether previously held and used or newly acquired. We will adopt this standard beginning March 31, 2002. We do not believe the adoption of SFAS 144 will have a material effect on our financial statements.

Results of Operations

Net Revenues

(IN THOUSANDS)	2002	CHANGE	2001	CHANGE	2000
Net revenues	\$1,015,579	(38.8%)	\$1,659,358	62.5%	\$1,020,993

We classify our product offerings into four categories by semiconductor manufacturing process technology: advanced products, mainstream products, base products and support products. These four product categories are adjusted on a regular basis to accommodate advances in our process technology. The most recent adjustment was on April 1, 2001. Advanced products include our newest technologies manufactured on 0.18-micron and smaller process technologies, which include the Spartan-II, Spartan-II-E, Virtex-E, Virtex-II, Virtex-II Pro, and CoolRunner-II product lines. Mainstream products are currently manufactured on 0.22 to 0.35-micron process technologies and include the Virtex, XC4000XL, XC4000XLA, XC4000XV, XC9500XL, SpartanXL and CoolRunner product lines. Base products consist of our mature product families that are currently manufactured on process technologies of 0.5-micron and larger; this includes the XC3000, XC3100, XC4000, XC5200, XC9500, XC4000E, XC4000EX and Spartan families. Our Support products make up the remainder of our product offerings and include configuration solutions (serial prompts), software, IP cores, design services and support.

Xilinx's net revenues decreased 38.8% in fiscal 2002 compared to fiscal 2001. The decrease was primarily due to an industry wide recession. The 62.5% increase in fiscal 2001 over 2000 was primarily due to the significant growth in Spartan and Virtex product lines and in general a very strong semiconductor industry. Net revenue growth slowed substantially in the fourth quarter of fiscal 2001 due to decelerating bookings and order cancellations resulting from a softening economy and increased inventory levels experienced at a broad base of our customers, particularly in the telecommunications sector.

Advanced products represented 37.5% and 17.8% of total net revenues in fiscal 2002 and 2001. The percentage increase in revenues of Advanced products was due to the introduction and strong market acceptance of Virtex-II and Spartan-II products across a broad base of sectors. Mainstream and Base products represented 55.3% of total net revenues in fiscal 2002 and 74.8% in fiscal 2001. Mainstream and Base products saw the largest revenue decline in the Virtex, 4000XL and 4000XLA product families due to the combination of weak demand, excess inventories at end customers, and customer migration to newer product offerings. Support products represented 7.2% and 7.4% of total net revenues in fiscal 2002 and 2001, respectively, with the vast majority of the revenue being configuration solutions (serial prompts) with the remainder coming from software, IP cores, design services and support. No end customer accounted for more than 10% of revenues in fiscal 2002, 2001 or 2000. Net revenues by technology for the years ended March 31, 2002, 2001 and 2000 were as follows:

(IN MILLIONS)	2002	%	2001	%	2000	%
Advanced products	\$ 380.5	37.5	\$ 294.7	17.8	\$ 9.0	0.9
Mainstream products	354.6	34.9	766.7	46.2	429.6	42.1
Base products	207.3	20.4	474.4	28.6	490.1	48.0
Support products	73.2	7.2	123.6	7.4	92.3	9.0

Total net revenues	\$1,015.6	100.0	\$1,659.4	100.0	\$1,021.0	100.0
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In order to compete effectively, we pass manufacturing cost reductions on to our customers in the form of reduced prices to the extent that we can maintain acceptable margins. Price erosion is common in the semiconductor industry, as advances in both product architecture and manufacturing process technology permit continual reductions in unit cost. We have historically been able to offset much of the revenue decline 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.

Net revenues by geography for the years ended March 31, 2002, 2001, and 2000 were as follows:

(IN MILLIONS)	2002	%	2001	%	2000	%
North America	\$ 524.2	51.6	\$1,028.2	62.0	\$ 681.0	66.7
Europe	235.9	23.2	334.0	20.1	201.8	19.8
Japan	130.6	12.9	163.6	9.9	82.6	8.1
Asia Pacific/Rest of World	124.9	12.3	133.6	8.0	55.6	5.4
Total net revenues	\$1,015.6	100.0	\$1,659.4	100.0	\$1,021.0	100.0

International revenues represented approximately 48%, 38%, and 33% of total net revenues for fiscal years 2002, 2001, and 2000, respectively. Europe, Japan, and Asia Pacific/Rest of World all experienced revenue decreases in fiscal 2002 as compared to fiscal 2001 due to the industry wide global recession that particularly affected the telecommunications sector.

Gross Margin

(IN THOUSANDS)	2002	CHANGE	2001	CHANGE	2000
Gross margin	\$457,695	(53.3%)	\$979,956	53.9%	\$636,955
Percentage of net revenues	45.1%		59.1%		62.4%

The significant decrease in gross margin percentages in fiscal 2002 compared to 2001 resulted from a write-down of inventories during the second quarter of fiscal 2002 and from product mix shifts away from Mainstream and Base products that generate higher margins. The inventory write-down related primarily to the Virtex and Virtex-E product families and was based on a sharp decrease in backlog and forecasted demand due to a worldwide economic slowdown as well as a significant standards revision resulting from lower manufacturing costs. Advanced products represented 37.5% of total net revenues in fiscal 2002, while they were only 17.8% in fiscal 2001. As the demand for our products shifts away from the older, more profitable product families, gross margin could come under further pressure. Margins for the Advanced products (Virtex-E, Virtex-II product families as well as Spartan-II products) are below our more mature Base and Mainstream product families, as the products have not yet achieved optimal manufacturing volumes, costs and yields. During fiscal 2001, our gross margin percentage decreased from the prior year primarily due to the write-down for inventory in excess of the demand and backlog due to a slowdown in business during the fourth quarter of fiscal 2001. In addition, the gross margin percentage decreased in fiscal 2001 from the prior year due to lower margin new products such as Spartan-II and Virtex-E and the decline in revenue of our older more profitable product families.

Research and Development

(IN THOUSANDS)	2002	CHANGE	2001	CHANGE	2000
Research and development	\$204,752	(4.0%)	\$213,195	72.5%	\$123,584
Percentage of net revenues	20.2%		12.8%		12.1%

Research and development expenses were \$204.8 million, \$213.2 million, and \$123.6 million for fiscal 2002, 2001, and 2000, respectively. Research and development expenses for fiscal 2002 and 2001 include non-cash deferred stock compensation of \$8.5 million and \$4.5 million, respectively, associated with the November 2000 acquisition of RocketChips (See Note 14 of Notes to Consolidated Financial Statements.) Excluding RocketChips' deferred stock compensation, research and development expenses were \$196.3 million and \$208.7 million for fiscal 2002 and 2001, respectively. The decrease in research and development expenses from fiscal 2001 to 2002 was related to reduction of some projects, reduction in outside services, and employee related expenses. The increase in research and development expenses from fiscal 2000 to 2001 was related to designing new complex and high density devices, development of advanced process technologies, increased labor-related costs associated with the development of new products along with increased labor costs associated with the acquisition of RocketChips. We remain committed to a significant level of research and development effort in order to extend our technology leadership in the programmable logic marketplace. Through March 31, 2002, we held 665 issued U.S. patents and we maintain an active program of filing for additional patents in the areas of, but not limited to, software, IC architecture, system design, testing methodologies, and other technologies relating to PLDs.

Sales, General and Administrative

(IN THOUSANDS)	2002	CHANGE	2001	CHANGE	2000
Sales, general and administrative	\$228,759	(16.5%)	\$274,093	46.9%	\$186,619
Percentage of net revenues	22.5%		16.5%		18.3%

Sales, general and administrative expenses for the year ended March 31, 2002 were \$228.8 million, or 22.5% of net revenues, compared to \$274.1 million, or 16.5% of net revenues in fiscal 2001 and \$186.6 million, or 18.3% of net revenues in fiscal 2000. The 16.5% decrease in sales, general and administrative expenses in fiscal 2002 was primarily attributable to lower commissions and marketing expenses as well as a reduction in employee related expenses such as salaries, staff development and travel. The 46.9% increase in sales, general and administrative expenses in fiscal 2001 was primarily attributable to increased personnel and facilities expenses, increased advertising and promotional expenditures, increased outside sales commissions and sales incentives on higher revenues and legal expenses. We remain committed to controlling our sales, general and administrative expenses.

Amortization of Goodwill and Other Intangibles

Amortization of goodwill and other intangibles of \$43.0 million and \$17.9 million for fiscal 2002 and 2001, respectively, relates to the November 2000 acquisition of RocketChips. An additional \$3.6 million, \$8.3 million and \$3.7 million of intangibles amortization related to other technology acquisitions is included in cost of revenues and \$2.4 million, \$4.3 million and \$2.1 million is included in research and development expenses for 2002, 2001 and 2000, respectively.

Remaining goodwill and acquired intangibles continued to be amortized through fiscal year 2002 using an estimated useful life of four to seven years. In July 2001, the FASB issued SFAS No. 141, "Business Combinations," effective for business combinations initiated after June 30, 2001, and SFAS No. 142, "Goodwill and Other Intangible Assets," effective for fiscal years beginning after December 15, 2001. Beginning in fiscal 2003, goodwill will no longer be amortized, but will instead be subject to periodic impairment tests.

Impairment Loss on Intangible Assets and Equipment

We evaluate the carrying value of certain long-lived assets and acquired intangibles, consisting primarily of testing equipment, goodwill, acquired technology, patents, and other intangible assets, recorded on the balance sheet, in accordance with SFAS 121 on a quarterly basis. SFAS 121 requires recognition of impairment losses on long-lived assets in the event that the carrying values of such assets exceed the fair values. When we have indicators of impairment, we review our long-lived assets and acquired intangible assets for impairment based on estimated future undiscounted cash flows attributable to the assets. In the event such cash flows are not expected to be sufficient to recover the recorded value of the assets, the assets are written down to their estimated fair values based on the expected discounted future cash flows attributable to the assets.

We recognized an impairment loss on intangible assets and equipment of \$25.3 million during the second quarter of fiscal 2002 consisting of the following items. Due to the significant economic downturn in the PLD market, we recorded impairment charges of \$14.9 million relating to goodwill and other intangible assets associated with a number of technology acquisitions completed during the past two years. In conjunction with a decline in demand and migration to new test platforms, we also recorded an impairment loss of \$10.4 million for the write-down of excess testers that were acquired in anticipation of higher unit growth. The discount rate applied to these cash flows was based on the weighted average cost of capital, using comparable guideline companies. Due to the fact that the carrying amount of these assets will not be recoverable, these charges were taken in accordance with SFAS 121.

Write-Off of Acquired In-Process Research and Development

In connection with the acquisition of RocketChips in fiscal 2001, approximately \$90.7 million of in-process research and development costs were written off. In fiscal 2000, in connection with the acquisition of Phillips Semiconductors' line of low-power CPLDs, approximately \$4.6 million was written off for the research and development project in process. The projects identified as in-process would have required additional effort in order to establish technological feasibility. These projects had identifiable technological risk factors that indicated that even though successful completion was expected, it was not assured. If an identified project is not successfully completed there is no alternative future use for the project and the expected future income will not be realized. The acquired in-process research and development represented the appraised value of technologies in the development stage that had not yet reached technological feasibility and did not have alternative future uses.

To determine the value of the in-process research and development, the expected future cash flow attributable to the in-process technology was discounted, taking into account the percentage of completion, utilization of pre-existing "core" technology, risks related to the characteristics and applications of the technology, existing and future markets, and technological risk associated with completing the development of the technology. We expensed these non-recurring charges in the period of acquisition. (See Note 14 of Notes to Consolidated Financial Statements.)

Capital Gain from Merger of USIC with UMC

In January 2000, United Silicon Inc. (USIC) was merged into United Microelectronics Corp (UMC) and our equity position in USIC was converted into shares of UMC which are publicly traded on the Taiwan Stock Exchange. We recognized a non-cash gain of \$674.7 million (\$398.1 million net of taxes) in fiscal 2000 as a result of the merger. The gain represented the appreciation of our investment in USIC. As a result of this merger, we received approximately 222 million UMC shares, which represent approximately 2% of the combined UMC Group. In July 2000, we received a 20% stock dividend that increased our investment holdings in UMC to approximately 266 million shares. In July 2001, we received a 15% stock dividend that increased our investment holdings to approximately 306 million shares. We retain equivalent wafer capacity rights in UMC as we previously had in USIC, as long as we retain a certain percentage of our original UMC shares. If our holdings fall below that percentage, our wafer capacity rights would be prorated by the UMC shares we hold.

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

UMC Investment Valuation

Due to the weakness in the semiconductor industry, the value of our UMC shares declined to \$430.9 million as of March 31, 2001. The downturn in the semiconductor industry and the economy in general, was more severe than previously anticipated, and there is a great deal of uncertainty regarding when the semiconductor industry will recover from this down cycle. Because of the continued downturn in the economy, we believed that the decline in the market value of our investment in UMC as of March 31, 2001, was other than temporary as defined by accounting principles generally accepted in the United States. In the fourth quarter of fiscal 2001 we recognized a pre-tax write-down of \$362.1 million (\$219.1 million net of tax).

The value of our UMC shares declined to \$239.0 million as of September 29, 2001. Because of the continued downturn in the economy, we believed that the decline in the market value of our investment in UMC as of September 29, 2001 was other than temporary. During the second quarter of fiscal 2002 we recognized a pre-tax write-down of \$191.9 million (\$116.1 million net of tax) to reflect this other-than-temporary decline in market value. The value of our unrestricted UMC shares increased in value by \$141.4 million during the third and fourth quarters of fiscal 2002, increasing the total value of our UMC investment to \$380.4 million as of March 31, 2002. Under the provisions of SFAS 115, we increased the value of the UMC investment by \$141.4 million, recognized deferred tax liabilities of \$55.8 million and increased accumulated other comprehensive income by \$85.6 million. We will continue to re-evaluate the UMC investment quarterly to determine whether there are incremental other-than-temporary impairments. Temporary decreases or increases in the value of the UMC unrestricted investment, if any, will be recorded in accumulated other comprehensive income (loss). In addition, in future periods, we may recognize a gain or loss if we sell our UMC shares due to fluctuations in the market value of UMC stock.

Altera Corporation Lawsuit Settlement

On July 18, 2001, the Company settled all of its outstanding patent litigation with Altera, under which Altera paid the Company \$20

million and both parties exchanged limited patent licenses and executed agreements not to sue under any patent for at least five years. During the second quarter of fiscal 2002 we recorded a lawsuit settlement of \$19.4 million, net of settlement costs of \$0.6 million.

Interest Income and Other, Net

(IN THOUSANDS)	2002	CHANGE	2001	CHANGE	2000
Interest income and other, net	\$23,705	(39.6%)	\$39,339	43.2%	\$27,361
Percentage of net revenues	2.3%		2.4%		2.7%

Interest income and other, net was \$23.7 million, or 2.3% of net revenues in fiscal 2002 compared to \$39.3 million, or 2.4% of net revenues in fiscal 2001 and \$27.4 million, or 2.7% of net revenues in fiscal 2000. The decrease from fiscal 2001 to 2002 was primarily due to lower interest rates in fiscal 2002 as compared to 2001. The amount of interest income and other, net in the future will continue to be impacted by the level of our average cash and investment balances, prevailing interest rates, and foreign currency exchange rates. For fiscal 2001, interest income and other, net included a pre-tax gain on one of our investments of \$4.5 million due to acquisition by a public company. Excluding this gain, net interest and other income was \$34.6 million, or 2.1% of sales. Excluding this gain, the dollar increase from fiscal year 2000 to 2001 was primarily due to an increase in the interest income related to higher interest rates offset by foreign exchange losses due to the weaker Japanese Yen in fiscal 2001 compared to fiscal 2000.

Provision for (Benefit from) Income Taxes

(IN THOUSANDS)	2002	CHANGE	2001	CHANGE	2000
Provision for (benefit from) taxes on income	\$(79,347)	N/A	\$25,845	(93.2%)	\$378,006
Effective tax rate	41.1%		42.3%		36.9%

The effective tax rates for fiscal years 2002, 2001, and 2000 were 41.1%, 42.3% and 36.9% respectively. The effective tax rates in all years reflect the impact of foreign income/loss at different rates and tax credits earned in the U.S. Fiscal years 2002 and 2001 were also impacted by non-deductible acquisition related amortization.

The Company filed a petition with the U.S. Tax Court on March 26, 2001 in response to assertions by the Internal Revenue Service that the Company owed additional tax for fiscal years 1996 through 1998. The Company is in discussions with the Appeals Office of the Internal Revenue Service to resolve and settle the issues. Two issues have been settled with the Appeals Office and we are exploring possibilities for settlement of additional issues. One of the unresolved issues relates to whether the value of compensatory stock options must be included in the cost sharing agreement with Xilinx Ireland. The Company filed a motion for summary judgment in February 2002 and the Internal Revenue Service filed a cross motion for summary judgment in March 2002. It is premature to comment further on the likely outcome of any issues that have not been settled to date. We believe we have meritorious defenses to the proposed adjustments and sufficient taxes have been provided.

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 merger of USIC and UMC. In fiscal 2000, income was generated as USIC began to realize volume wafer production and shipments.

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

Inflation

To date, the effects of inflation on 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

We have used a combination of cash flow from operations and equity financing to support ongoing business activities, acquire critical technologies and make investments in complementary technologies, purchase facilities and capital equipment, purchase securities, repurchase our common stock under our stock repurchase program 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

During fiscal 2002, we generated cash flow of \$280.9 million from operating activities and used \$217.7 million in investing activities and \$41.5 million in financing activities. Investing activities during fiscal 2002 included \$122.8 million of net purchases of investments and \$94.9 million of expenditures for property, plant and equipment. Financing activities during fiscal 2002 included an increase of \$84.1 million from issuance of common stock and sales of put options, offset by \$125.6 million of stock buyback.

During fiscal 2001, we generated cash flow of \$377.3 million from operating activities, \$44.7 million from investing activities, and consumed \$298.8 million in financing activities. Investing activities during fiscal 2001 included \$263.1 million of net proceeds from sales and purchases of investments, \$4.2 million cash obtained from acquisition of Rocketchips, offset by \$222.7 million of expenditures for property, plant and equipment. Financing activities during fiscal 2001 included an increase of \$104.0 million from issuance of common stock and sales of put options, offset by \$402.8 million of stock buyback.

Receivables

Receivables decreased 14.1% from \$172.8 million at the end of fiscal 2001 to \$148.4 million at the end of fiscal 2002. The decrease was primarily attributable to the decreased level of revenue.

Inventories

Inventories decreased from \$342.5 million at March 2001 to \$79.3 million at March 2002 due to the decreased level of revenue and corresponding minimal purchases of inventory. In fiscal 2002, we wrote down inventories due to a sharp decrease in backlog and

forecasted demand due to a worldwide economic slowdown as well as a significant standards revision resulting from lower manufacturing costs. Given the cyclical nature of the market and the obsolescence in technology and shorter product life cycles, we write down inventories to net realizable value based on backlog and forecasted demand. Backlog is subject to revisions, cancellations and rescheduling. Actual demand may differ from forecasted demand and such difference may have a material effect on our financial position and results of operations.

We attempt to maintain sufficient levels of inventory in various product, package and speed configurations to meet forecasted customer demand. Conversely, we also attempt 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 2002, we invested \$94.9 million in property, plant and equipment compared to \$222.7 million in 2001. Primary investments in fiscal 2002 were for building purchases, software and semiconductor design tools, test equipment at each of our test locations, and workstations and network infrastructure.

Current Liabilities

Current liabilities decreased from \$350.4 million at the end of fiscal 2001 to \$195.8 million at the end of fiscal 2002. The decrease was primarily attributable to the decrease in accounts payable and deferred income on shipments to distributors. The decrease in accounts payable was a result of lower business activity and the decrease in deferred income on shipments to distributors was due to decreased inventory levels at distributors, due to lower shipments in fiscal 2002 compared to fiscal 2001.

Line of Credit

We have a \$6.2 million credit facility to meet occasional working capital requirements for our Ireland facility. At March 31, 2002, no borrowings were outstanding under this line of credit. (See Note 4 of Notes to Consolidated Financial Statements.)

Stockholders' Equity

Stockholders' equity decreased by \$14.6 million in fiscal 2002 to \$1,903.7 million. The decrease was attributable to the \$113.6 million net loss and the acquisition of treasury stock and cumulative translation adjustment totaling \$126.7 million. The decrease was partially offset by the \$80.2 million of proceeds from the issuance of common stock under employee stock plans, the related tax benefits associated with stock option exercises and the employee stock purchase plan of \$52.4 million, \$79.2 million from unrealized gains on available-for-sale securities, \$10.9 million in deferred compensation primarily related to the RocketChips' acquisition and \$3.0 million related to the sale of put options.

Commitments

Approximate future minimum lease payments under operating leases are as follows:

YEARS ENDED MARCH 31,	(IN THOUSANDS)
2003	\$ 3,897
2004	2,910
2005	2,408
2006	1,887
2007	1,382
Thereafter	3,460
	<hr/>
	\$15,944

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 technologies or businesses that could complement our business. 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 which contribute to create factors that may affect our future operating results including:

- limited visibility of demand for products;
- increased dependence on turns orders (orders received and shipped within the same fiscal quarter);
- erosion of average selling prices;
- shift in product mix could negatively impact gross margins;
- excess inventory within the supply chain;
- reduced capital spending by telecommunications service providers;
- overbuilding of original equipment manufacturers (OEM) products, including communication infrastructure;
- further deterioration in demand could lead to further excess and obsolete inventories and corresponding write-downs;
- reduction in volumes could cause lower gross margins due to higher overhead absorption costs and reduced manufacturing efficiency improvements;
- a prolonged global economic recession could impact demand negatively for our products;
- a faster than expected increase in demand could result in a shortage of capacity at our wafer providers; and
- an extended increase in demand could lengthen cycle times and result in higher than anticipated inventory requirements.

Our results of operations are affected by several factors. These factors include general economic conditions, those 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 or if our customers' reduced demand causes them to slow orders of our products, thereby increasing dependence on turns orders. Changes in our product mix could adversely affect gross margins. In addition, any difficulty in achieving targeted wafer production yields could adversely affect our financial condition and results of operations. An increase in demand could result in longer lead times causing delays in customer production schedules. 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. For example, the recent overbuilding in the telecommunications industry resulted in a reduction in capital spending causing a slowdown in orders for our products. 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 mature industries. Based on the factors noted herein, we may experience substantial fluctuations in future operating results.

Potential Effect of Global Economic and Political Conditions

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. Sales to all direct OEMs and distributors are denominated in U.S. dollars. While the recent weakness of the Euro and Yen against the Dollar had no material impact to our business, continued weakness could lead to adverse conditions from our European and Japanese customers. 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, such as the terrorist attacks on September 11, 2001 and their aftermath, 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 wafer provider, UMC, as well as a significant number of suppliers to the semiconductor industry, end customers and contract manufacturers who provide manufacturing services worldwide, are located.

Potential Effect of Changes to Current Export/Import Laws and Regulations

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.

Volatility of the Securities of High Technology Companies

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 on Independent Manufacturers and Subcontractors

We do not manufacture our own silicon wafers. Presently, all of our wafers are manufactured in Taiwan by UMC, in Japan by Seiko Epon Corp (Seiko) and in the U.S. by International Business Machines Corporation (IBM). Terms with respect to the volume and timing of wafer production and the pricing of wafers produced by the semiconductor foundries are determined by periodic negotiations between Xilinx and these wafer foundries. We are dependent on these foundries 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 the foundries that supply our wafers will not experience future manufacturing problems, including delays in the realization of advanced manufacturing process technologies.

UMC's foundries in Taiwan and Seiko's foundries in Japan as well as 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 or our suppliers' 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. Additionally, disruption of operations at these foundries for any reason, including other natural disasters such as fires or floods, 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 located in Asia 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.

Dependence on New Products

Our success depends in large part on our ability to develop and introduce new products that 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 including a transition to 300 millimeter wafers as well as to circuit geometries smaller than 0.13 micron;
- achieving acceptable yields;
- ability to obtain adequate product production from our wafer foundries and assembly subcontractors;
- ability to obtain advanced packaging;
- availability of supporting software design tools;
- utilization of predefined cores of logic;
- industry acceptance; and

- successful deployment of systems by our customers.

We cannot assure that our product development efforts will be successful, that our new products will achieve industry acceptance or that we will achieve the necessary volume of production that would lead to further per unit cost reductions. 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" in Part I.

Intellectual Property

We rely upon patent, copyright, trade secret, mask work and trademark laws 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.

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 was available for non-cash transactions and legacy currencies remained legal tender. In January 2002, the Euro replaced the sovereign currencies of the member countries. The conversion process did not have a material adverse impact on our operations and systems. However, we are continuing to assess the Euro's impact on our business.

Litigation

We are currently engaged in several legal matters. See "Legal Proceedings" in Part I.

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