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## Note 11. Income Taxes

The provision for (benefit from) taxes on income consists of the following:

(IN THOUSANDS)		YEARS ENDED MARCH 31,		
		2002	2001	2000
Federal:	Current	\$(84,315)	\$ 131,903	\$ 97,019
	Deferred	24,227	(124,263)	196,172
		(60,088)	7,640	293,191
State:	Current	3,227	21,678	15,851
	Deferred	(25,630)	(30,087)	58,272
		(22,403)	(8,409)	74,123
Foreign:	Current	3,144	26,614	10,692
Total		\$(79,347)	\$ 25,845	\$378,006

The tax benefits associated with stock option exercises and the employee stock purchase plan resulted in a tax benefit of \$52.4 million, \$159.0 million, and \$112.1 million, for fiscal years 2002, 2001, and 2000, respectively. Such benefits are credited to additional paid-in capital when realized. The Company has Federal and state tax loss and tax credit carryforwards of approximately \$120 million and \$46 million respectively. If unused, these tax loss carryforwards and \$31 million of the tax credit carryforwards will expire in 2005 through 2022. Pretax income from foreign operations was \$14.4 million, \$281.5 million, and \$106.4 million for fiscal years 2002, 2001, and 2000, respectively. Unremitted foreign earnings that are considered to be permanently invested outside the United States and on which no U.S. taxes have been provided, accumulated to approximately \$199 million as of March 31, 2002. The residual U.S. tax liability, if such amounts were remitted, would be approximately \$49.8 million.

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

(IN THOUSANDS)		YEARS ENDED MARCH 31,		
		2002	2001	2000
Income (loss) before provision for taxes		\$(192,954)	\$ 61,103	\$1,024,272
Federal statutory tax rate		35%	35%	35%
Computed expected tax		\$ (67,534)	\$ 21,386	\$ 358,495
State taxes net of federal benefit		(14,562)	(5,468)	48,180
Tax exempt interest		(3,667)	(6,734)	(5,472)
Foreign earnings at lower tax rates		8,784	(9,488)	(15,370)
In-process research and development charge		-	31,745	-
Amortization of goodwill		9,884	4,143	-
Tax credits		(13,235)	(10,640)	(6,095)
Other		983	901	(1,732)
Provision for (benefit from) taxes on income		\$ (79,347)	\$ 25,845	\$ 378,006

The major components of deferred tax assets and liabilities consist of the following at March 31, 2002 and 2001:

(IN THOUSANDS)		2002	2001
Deferred tax assets:			
Inventory valuation differences		\$ 23,727	\$ 26,227
Deferred income on shipments to distributors		25,654	83,701
Nondeductible accrued expenses		24,633	9,711
Tax loss and tax credit carryforwards		87,967	29,445
Other		3,678	3,971
Total net deferred tax assets		165,659	153,055
Deferred tax liabilities:			
Intangible and fixed assets		7,937	(11,874)

Unremitted foreign earnings	(126,636)	(83,932)
Capital gain from merger of USIC with UMC	(57,818)	(133,599)
Current net value of investments	(57,458)	(2,674)
Other	(1,805)	(1,391)
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Total net deferred tax liabilities	(235,780)	(233,470)
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Total net deferred tax (liabilities) assets	\$ (70,121)	\$ (80,415)
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The difference between the net deferred taxes per the balance sheet and the net deferred taxes above of \$23,633 and \$1,525 at March 31, 2002 and 2001, respectively, is included in other assets on the balance sheet.

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.

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