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

Basis of Presentation

The accompanying consolidated financial statements include the accounts of Xilinx and our wholly owned subsidiaries after elimination of all significant 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 2002 was a 52-week year ended on March 30, 2002. Fiscal 2001 was a 52-week year ended on March 31, 2001 and Fiscal 2000 was a 52-week year ended on April 1, 2000.

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. Short-term investments consist of tax-advantaged municipal bonds, commercial paper, and tax-advantaged auction rate preferred municipal bonds with maturities greater than 90 days but less than one year from the balance sheet date. Long-term investments consist of equity investments, U.S. Treasury notes, government agency bonds and tax-advantaged municipal bonds with maturities greater than one year, unless the investments are specifically identified to fund current operations, in which case they are classified as short-term investments. We invest our cash, cash equivalents, short-term and long-term investments through various banks and investment banking and asset management institutions. This diversification of risk is consistent with our policy to maintain liquidity and ensure our ability to collect principal. The Company maintains an offshore investment portfolio denominated in U.S. dollars with investments in non U.S. based issuers. All investments are made pursuant to the corporate investment policy guidelines. Investments include commercial paper, Euro bonds, Euro floaters and offshore money market funds.

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. No investments were classified as held-to-maturity at March 31, 2002 or 2001. 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 interest income and other, net. 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. The restricted portion of our investment in UMC is accounted for as a cost method investment. (See Note 3).

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, 2002 and 2001:

(IN THOUSANDS)	2002	2001
Raw materials	$10,962	$ 26,245
Work-in-process	46,837	249,348
Finished goods	21,490	66,860
	$79,289	$342,453

Given the cyclicality of the market and the obsolescence of technology and shorter product life cycles, we write 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. Our standard cost revision policy is to continuously review and monitor our standard costs based on current manufacturing costs. Our 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. Our reserve policy on new products is to reserve all inventory at standard cost until the devices are production released.

Property, Plant and Equipment

Property, plant and equipment are recorded at cost, net of accumulated depreciation. Depreciation for financial reporting purposes is computed using the straight-line method over the estimated useful lives of the assets of two to five years for machinery, equipment, furniture and fixtures and up to thirty years for buildings. Depreciation expenses totaled $51.7 million, $46.4 million, and $33.7 million for fiscal year 2002, 2001, and 2000, respectively.

Impairment of Long-Lived Assets Including Goodwill and Other Intangibles

We evaluate the carrying value of long-lived assets and acquired intangibles including goodwill on an annual basis, or more frequently if impairment indicators arise. When indicators of impairment exist and assets are held for use, we estimate 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. When assets are removed from operations and held for sale, we estimate impairment losses as the excess of the carrying value of the assets over their fair value.

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 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.

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, net.” The functional currency is the local currency for each of our other foreign subsidiaries. Assets and liabilities are translated from foreign currencies into U.S. dollars 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 financial arrangements to reduce financial market risks. We may use derivative financial instruments 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 or speculative purposes.

On April 1, 2001 we adopted Financial Accounting Standards Board FASB Statement of Financial Accounting Standards No. 133, “Accounting for Derivative Instruments and Hedging Activities” (SFAS 133). SFAS 133 requires that all derivatives be recorded on the balance sheet at fair value. Changes in the fair value of derivatives that do not qualify, or are not effective as hedges must be recognized currently in earnings. SFAS 133 did not have a material impact on the date of adoption and did not result in a cumulative transition adjustment. As of and for the year ended March 31, 2002, the use of derivative financial instruments was not material to our results of operations or our financial position.

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 SFAS No. 123 “Accounting for Stock-Based Compensation”.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the 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 tangible and intangible assets, inventory write-downs, allowances for doubtful accounts, pricing adjustments, customer returns, 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 July 2001, the FASB issued SFAS No. 141, “Business Combinations,” and SFAS No. 142, “Goodwill and Other Intangible Assets”. SFAS 141 requires all business combinations initiated after June 30, 2001 be accounted for using the purchase method. Under SFAS 142, goodwill and intangible assets with indefinite lives are no longer amortized but are reviewed annually (or more frequently if impairment indicators arise) for impairment. Separable intangible assets that are not deemed to have indefinite lives will continue to be amortized over their useful lives. The amortization provisions of SFAS 142 apply to goodwill and intangible assets acquired after June 30, 2001. With respect to goodwill and intangible assets acquired prior to July 1, 2001, the amortization and impairment provisions of SFAS 142 are effective upon the adoption of SFAS 142. We are required to adopt SFAS 141 and SFAS 142 at the beginning of fiscal 2003. During the year ended March 31, 2002, we recognized goodwill amortization totaling approximately $30 million. At March 31, 2002, the unamortized balance of goodwill was $100.7 million. There will be no amortization of remaining goodwill effective March 31, 2002.

In August 2001, the FASB issued SFAS No. 144, “Accounting for the Impairment or Disposal of Long-Lived Assets”, which supercedes both SFAS No. 121, “Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of”, and the accounting and reporting provisions of APB Opinion No. 30, “Reporting the Results of Operations-Reporting the Effects of a Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions” (Opinion 30), for the disposal of a segment of a business (as previously defined in that Opinion). SFAS 144 retains the fundamental provisions in SFAS 121 for recognizing and measuring impairment losses on long-lived assets to be “held and used.” In addition, the statement provides more guidance on estimating cash flows when performing a recoverability test, requires that a long-lived asset or group of assets to be disposed of other than by sale be classified as “held and used” until they are disposed of, and establishes more restrictive criteria to classify an asset or group of assets to be “held for sale.” SFAS 144 retains the basic provisions of Opinion 30 on how to present discontinued operations in the statement of income but broadens that presentation to include a component of an entity (rather than a segment of a business). We will adopt SFAS 144 at the beginning of fiscal 2003. We do not believe the adoption of SFAS 144 will have a material impact on our operating results or financial position.

In November 2001, the Emerging Issues Task Force (“EITF”) released Issue No. 01-09, “Accounting for Consideration Given by a Vendor to a Customer or a Reseller of the Vendor’s Product,” which applies to annual or interim financial statement periods beginning after December 15, 2001. The release provides that cash consideration (including sales incentives) that we give to our customers or resellers should be accounted for as a reduction of revenue unless we receive a benefit that is identifiable and that can be reasonably estimated. We will adopt this new release effective as of March 31, 2002 and do not expect that the adoption of EITF Issue No. 01-09 will have a material impact on our total net revenues.

Concentrations of Credit Risk

We are subject to concentrations of credit risk primarily in our trade accounts receivable and investments in debt securities to the extent of the amounts recorded on the balance sheet. We attempt to mitigate the concentration of credit risk in our trade receivables through our credit evaluation process, collection terms, sales to diverse end customers and through geographical dispersion of sales. We generally do not require collateral for receivables from our end customers or from distributors. In the event of termination of a distributor agreement, inventory held by the distributor must be returned. Bad debt write-offs have been within management's expectations for all years presented.

No end customer accounted for more than 10% of net revenues in fiscal 2002, 2001, or 2000.

As of March 31, 2002, two distributors accounted for 48% and 30% of total accounts receivable. These two distributors also accounted for 44% and 30% of worldwide net revenues in fiscal 2002. As of March 31, 2001, two distributors accounted for 59% and 28% of total accounts receivable. These two distributors also accounted for 44% and 29% of worldwide net revenues in fiscal 2001. In fiscal 2000, two distributors accounted for 42% and 29% of worldwide net revenues. We continuously monitor the creditworthiness of our distributors and believe their sales to diverse end customers and to diverse geographies further serve to mitigate our exposure to credit risk.

We mitigate concentrations of credit risk in our investments in debt securities by investing more than 90% of our portfolio in AA or better grade securities as rated by Standard & Poor's. Additionally, we limit our investments in the debt securities of a single issuer and attempt to further mitigate credit risk by diversifying risk across geographies and type of issuer. At March 31, 2002, 68% and 32% of our investments in debt securities were domestic and foreign, respectively, and 44% of our investments in debt securities were issued by corporate entities and 56% by government agencies and municipalities.

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