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Note 3. Joint Venture

In September 1995, Xilinx, UMC and other parties entered into a joint venture to construct a wafer fabrication facility in Taiwan, known as 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.

In January 2000, USIC merged into UMC and our equity position in USIC 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 our fiscal 2000 fourth quarter as a result of the merger of USIC into UMC. The gain represented the appreciation of our investment in USIC. As a result of this merger, we owned approximately 222 million shares of UMC common stock, which represent approximately 2% of the combined UMC Group. In July 2000, we received a 20% stock dividend, which 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 the specified 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 could not be sold until July 2000. These regulatory restrictions will gradually expire between July 2000 and January 2004. At March 31, 2002 and 2001, the restricted portion of our UMC investment totaled \$86.6 million and \$179.5 million, respectively.

The Company accounts for the portion (approximately 77% at March 31, 2002) of its investment in UMC that becomes unrestricted within twelve months as available-for-sale marketable securities in accordance with SFAS 115. The portion of the investment in UMC that is restricted beyond twelve months (approximately 23% of the Company's holdings at March 31, 2002) is accounted for as a cost method investment.

The value of our UMC shares declined to \$430.9 million as of March 31, 2001. Based on the facts and circumstances known at the time, 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 other-than-temporary impairment of our investment in UMC of \$362.1 million.

The fair value of our UMC shares had declined to \$239.0 million as of September 29, 2001. Because of the continued downturn in the economy, in general and in the technology sector in particular, 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 an additional pre-tax other-than-temporary impairment of our investment in UMC of \$191.9 million to reflect this other-than-temporary decline in market value. The fair value of our unrestricted UMC shares increased by \$122.8 million during the third quarter and \$18.6 million during the fourth quarter of fiscal 2002, increasing the total value of our UMC investment to \$380.4 million at 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 or increases in valuation in future periods. 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.

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