



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. The Company's programmable logic ICs include field programmable gate arrays (FPGAs) and complex programmable logic devices (CPLDs). These components are standard ICs programmed by Xilinx's customers to perform desired logic operations. Xilinx also markets HardWire devices, which are mask-programmed ICs functionally equivalent to programmed FPGAs. The Company's products are designed to provide high integration and quick time-to-market for electronic equipment manufacturers in the data processing, telecommunications, networking, industrial control, instrumentation, high-reliability/military and consumer markets. The Company markets its 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. Xilinx's products have provided effective solutions to a wide range of customer logic requirements.



RESULTS OF OPERATIONS

REVENUE.

(In thousands)	1998	Change	1997	Change	1996
Revenues	\$613,593	8.0%	\$568,143	1.3%	\$560,802

The Company's 8.0% revenue increase in 1998 was primarily attributable to the revenue growth of the XC4000X product family, which includes the XC4000EX and XC4000XL devices, as well as revenue growth from the XC5200 and XC9500 product families. The revenue growth from these products was offset by decreased revenues from the Company's first generation products, including the Company's XC3000 product family and the Company's XC4000 family, a mature second generation product line. New products, which include the XC4000X, Spartan and XC9500 families, contributed nearly \$70 million in revenue in fiscal 1998 compared to approximately \$7 million in fiscal 1997. Despite the significant growth in new product revenues, fiscal 1998 revenues increased only 8.0% over fiscal 1997 as revenues were impacted by an overall slowdown in the semiconductor market, increased price competition, inventory reductions at end customers and a general economic downturn in the Asia Pacific region. Fiscal 1997 revenues, as compared to fiscal 1996, were significantly impacted by price competition as well as a semiconductor industry inventory correction, which reduced customer demand.

Revenue contribution by programmable logic product line reflected a mix between increased customer demand for low cost, medium range density programmable logic devices (PLDs) and the functionality and performance provided by the Company's higher density and higher speed programmable logic devices. Revenues from proprietary products, for which there is no second source competitor, increased from 91.0% of aggregate revenues in 1997 to a record 94.1% in 1998. Deriving revenues from leading-edge programmable logic solutions has been emphasized by the Company. The Company's corporate pricing strategy aims to expand the market for its products by reducing sales prices proportional to cost reductions achieved in the manufacturing of these products. The Company intends to continue to actively pursue a strategy of broadening the markets it serves through the enhancement of software design tools, availability of pre-defined cores of logic, the introduction of architectures offering new functionality, and the reduction of IC prices through continuous advancements in the silicon manufacturing process.

Revenues for the Company's first generation products, which include the XC2000, XC3000 and XC3100 families, represented 25.5% of total revenues in fiscal 1998, as compared to 32.2% in fiscal 1997. The Company's second generation products, including the XC4000, XC4000X and XC5200 families, represented 58.3% of total revenues in fiscal 1998, as compared to 53.2% in fiscal 1997. Combined revenues from the Company's XC4000 and XC4000X product lines represented 49.0% of total revenues in fiscal 1998 compared to 46.5% in fiscal 1997, a dollar increase of 13.7% to \$300.7 million. Revenues from other programmable logic products, which include the XC7000 and XC9500 CPLD families, HardWire and serial proms, increased from 11.6% to 13.5% of total revenues in fiscal 1998 as compared to the prior year, mostly due to the increased revenue from the XC9500 family. Revenue from the XC9500 family increased from \$2.3 million in 1997 to \$13.9 million in 1998. No single end customer accounted for more than 5% of revenues in fiscal years 1998 or 1997 or 6% of revenues in 1996.

During fiscal 1998, the Company's total PLD unit sales increased 28%, as compared to fiscal 1997. The average selling price for the highest volume PLD products decreased over 30% from fiscal 1997 prices while individual products within certain families experienced price decreases in excess of 50% during the year. The Company believes that price decreases are instrumental in expanding market share to the extent that the Company 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 cost. The Company relies upon introducing new products, which incorporate advanced features and other price/performance factors such that higher average selling prices and higher margins are achievable despite the price erosion on mature product lines.

Xilinx's software design tools are used by the Company's customers to implement designs in the Company's programmable logic devices. Cumulative licenses for proprietary software design tools sold to customers through the end of 1998 totaled approximately 42,000 units, as compared to approximately 30,000 and 24,000 units at the end of 1997 and 1996, respectively. The increase in software revenue seats resulted primarily from increased demand for the Company's lower cost, easier to use Foundation Series software introduced in fiscal 1997. Software revenues decreased from \$17.1 million in both fiscal 1996 and 1997 to \$16.5 million in fiscal 1998. Although software seats increased, software revenue decreased 3.4% due to the change in the sales mix towards lower priced products as well as price reductions for specific products. Software sales as a percentage of total revenues represented approximately 3% of revenues in all years presented.

International revenues represented approximately 38%, 36% and 35% of total revenues for 1998, 1997 and 1996, respectively. International revenues are derived from customers in Europe, Japan and Asia Pacific/Rest of World which represented approximately 23%, 10% and 5% of the Company's worldwide sales, respectively, in fiscal 1998. Revenue growth in Europe and Asia Pacific/Rest of World over the past year was 11.9% and 26.6%, respectively. Revenues from Japan were adversely impacted by the weakening yen, as yen denominated revenues increased approximately 16% year-to-year but grew approximately 6% when translated into US dollars at the then prevailing exchange rates.

GROSS MARGIN.

(In thousands)	1998	Change	1997	Change	1996
Gross margin	\$382,903	9.8%*	\$348,806*	(2.5%)	\$357,610
Percentage of revenue	62.4%		61.4%*		63.8%

*Includes write-off of discontinued product family of \$5 million. Gross margin as a percentage of revenues was 62.3% excluding this charge.

The gross margin percentage remained consistent from fiscal 1997 to 1998, excluding the impact of a \$5.0 million write-off of the discontinued product family, as the selling price reductions were offset by the favorable impact of lower wafer prices from wafer suppliers, manufacturing process technology improvements, the impact of the strengthened US dollar exchange rate against the yen, and improved yields. The increase in the cost of revenues as a percentage of revenues in 1997 as compared to 1996 was primarily attributable to selling price reductions and increased inventory reserves relating to an expanded level of inventory, partially offset by the favorable impact of lower wafer costs and improved yields. Over the past three years, Xilinx has also been able to offset much of the erosion in gross margin percentages on more mature integrated circuits with increased volumes of newer, proprietary, higher margin products, although no assurance can be given that the Company will do so in the future. The Company recognizes that ongoing price reductions for its integrated circuits are a significant element in expanding the market for its products. Company management believes that gross margin objectives in the range of 60% to 62% of revenues are consistent with expanding market share while realizing acceptable returns, although there can be no assurance that future gross margins will be in this range.

During fiscal 1997, the Company discontinued the XC8100 family of one-time programmable antifuse devices. As a result, the Company recorded a pretax charge against earnings of \$5.0 million. This charge primarily related to the write-off of inventory and for termination charges related to purchase commitments to foundry partners for work-in-process wafers which had not completed the manufacturing process.

RESEARCH AND DEVELOPMENT.

(In thousands)	1998	Change	1997	Change	1996
Research and development	\$80,456	13.2%	\$71,075	10.0%	\$64,600
Percentage of revenue	13.1%		12.5%		11.5%

The Company continued to increase the amount spent on research and development, as it has done in each year of its fourteen-year history. During fiscal 1998, the increase in research and development expenses was primarily attributable to the increased costs associated with designing and developing new product architectures of complex, high density devices as well as labor-related expenses. The increase in research and development expenses from fiscal 1996 to 1997 was primarily attributable to increased headcount and labor expenses, increased purchases of engineering wafers and increased facility and support costs associated with an expanded scope of operations. The Company remains committed to a significant level of research and development effort in order to continue to compete aggressively in the programmable logic marketplace. Through March 31, 1998, the Company has received more than 200 US patents and maintains an active program of filing for additional patents in the areas of software, IC architecture and design. As of March 31, 1998, research and development personnel were split approximately 45% for software development and 55% for IC design and process development. Xilinx has not capitalized any of the costs associated with its software development.

MARKETING, GENERAL AND ADMINISTRATIVE.

(In thousands)	1998	Change	1997	Change	1996
Marketing, general and administrative	\$128,579	8.4%	\$118,670	10.0%	\$107,888
Percentage of revenue	21.0%		20.9%		19.2%

The 8.4% increase in marketing, general and administrative expenses in fiscal 1998 was primarily attributable to increases in headcount and related employee expenses and to a lesser extent an increase in legal expenses. Sales and support expenses have increased each year due to increasing personnel and labor costs and greater commission expenses associated with higher revenues. Sales and support expenses increased in fiscal 1997 over 1996 due to increased personnel and labor costs and increased commissions due to changes in the revenue channel mix. The Company remains committed to controlling administrative expenses. However, the timing and extent of future legal costs associated with the ongoing enforcement of the Company's intellectual property rights are not readily predictable and may significantly increase the level of general and administrative expenses in the future.

NON-RECURRING CHARGES. During fiscal 1996, the Company incurred a \$19.4 million non-recurring write-off of in-process technology relating to the acquisition of NeoCAD, Inc. See Note 3 of Notes to Consolidated Financial Statements.

OPERATING INCOME.

(In thousands)	1998	Change	1997	Change	1996
Operating income, as reported	\$173,868	9.3%	\$159,061	(4.0%)	\$165,756
Percentage of revenue	28.3%		28.0%		29.6%
Operating income before write-off and non-recurring charge	\$173,868	6.0%	\$164,061	(11.4%)	\$185,122
Percentage of revenue	28.3%		28.9%		33.0%

The decrease in operating income as a percentage of revenues in 1998 from 1997, before consideration of the write-off, is primarily a result of the 8.0% revenue growth in 1998 in comparison to a 13.2% increase year-to-year in research and development spending, and an 8.4% increase in marketing, general and administrative spending. The decrease in operating income in fiscal 1997 from 1996 was primarily a result of the 1.3% revenue growth in 1997 in comparison to 10% increases year-to-year in both research and development spending and marketing, general and administrative spending. Operating income as a percentage of revenues could be adversely impacted in future years by the factors discussed throughout this document, particularly those noted in "Factors Affecting Future Operating Results."

INTEREST AND OTHER, NET.

(In thousands)	1998	Change	1997	Change	1996
Interest income and other	\$6,728	0.5%	\$6,697	30.1%	\$5,146
Percentage of revenue	1.1%		1.2%		0.9%

The Company earns interest income on its cash, cash equivalents, short-term investments and restricted investments. The amount of interest earned is a function of the balance of cash invested as well as prevailing interest rates. The Company incurs interest expense on the \$250 million 5¼% convertible subordinated notes issued in November 1995. The Company's investment portfolio contains tax-advantaged municipal securities, which have pretax yields that are less than the interest rate on the convertible subordinated notes. For financial reporting purposes, the Company effectively records the difference between the pretax and tax-equivalent yields as a reduction in provision for taxes on income.

Interest and other income for 1998 remained consistent with the amount in 1997. In 1998, average cash and investment balances and average interest rates remained fairly consistent with the prior year, resulting in comparable net interest and other income over both years. The increase in interest income in fiscal 1997 over the prior year was primarily attributable to higher investment portfolio balances and joint venture equity income. As a result of the difference in interest income and expense yields and future uses of the Company's investment portfolio, levels of net interest and other income could decrease in the future.

PROVISION FOR INCOME TAXES.

(In thousands)	1998	Change	1997	Change	1996
Provision for taxes on income	\$56,728	2.4%	\$55,382	(20.3%)*	\$69,448*
Effective tax rate	31.4%		33.4%		40.6%*

*Includes non-recurring write-off of in-process technology relating to the acquisition of NeoCAD. Excluding the write-off of in-process technology, in fiscal 1996 the Company's effective tax rate was 36.5%.

The tax rate for fiscal 1998 as compared to fiscal 1997, as well as the tax rate for fiscal 1997 as compared to fiscal 1996, was favorably impacted by legislation reinstating the R&D Tax Credit as well as increased profits in foreign operations where the tax rate is lower than the US rate.

JOINT VENTURE EQUITY INCOME. The Company records its 25% proportional ownership of the net income of United Silicon Inc. (USIC), a wafer fabrication joint venture located in Taiwan, as joint venture equity income. To date, USIC's net income has resulted primarily from favorable foreign currency exchange gains as well as interest earned on its investment portfolio. Through the second quarter of fiscal 1998, equity income was immaterial and remains classified in "Interest income and other." The Company expects to incur joint venture equity losses during most of fiscal 1999 as the USIC wafer fabrication facility begins to ramp up production. Many of the expenses associated with full foundry operation will be incurred in the early stages of limited production, and the Company expects that profitability of the joint venture will occur, if at all, only after a sufficient volume of wafer production is obtained.

INFLATION. To date, the effects of inflation upon the Company's financial results have not been significant.



FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

The Company's financial condition at March 31, 1998 remained strong. Total current assets exceeded total current liabilities by 4.8 times, compared to 6.2 times at March 31, 1997. Since its inception, the Company has used a combination of equity and debt financing and cash flow from operations to support on-going business activities, make acquisitions and investments in complementary technologies, obtain facilities and capital equipment and finance inventory and accounts receivable.

CASH, CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS. Xilinx's cash, cash equivalents and short-term investments decreased by \$63.7 million in 1998 as cash was used to fund investing and financing activities. Cash, cash equivalents and short-term investments represented 38.5% of total assets at March 31, 1998. The Company generated cash flow of \$218.4 million from operating activities in 1998, offset by \$200.8 million of cash used for investing activities and \$66.6 million used in financing activities. Investing activities during fiscal 1998 included expenditures for property, plant and equipment together with a deposit for a facility under construction on the San Jose corporate campus, an additional investment in the USIC joint venture and additional advances to Seiko Epson for wafer purchases. Investment proceeds were received from the net maturity of short-term investments. Financing activities during 1998 included \$93.8 million to acquire treasury stock offset by \$27.2 million in proceeds from sales of common stock under employee option and stock purchase plans.

RECEIVABLES. Receivables decreased 15.7% from \$72.2 million at the end of 1997 to \$60.9 million at the end of 1998. In addition, days sales outstanding at the end of each year decreased from 43 days in 1997 to 36 days in 1998. In fiscal 1998 receivables decreased as the Company increased collection efforts relating to international sales as well as increased allowances for pricing adjustments and customer returns.

INVENTORIES. Inventories decreased 11.3% from \$62.4 million at March 1997 to \$55.3 million at March 1998. Inventory levels at March 31, 1998 represent 86 days of inventory, which is in line with the Company's objective of 70 to 90 days, compared to 96 days at March 31, 1997. Inventory levels decreased during fiscal 1998 as both architecture and manufacturing process technology improvements have permitted continued cost reductions as well as continued improvement of inventory management. The Company seeks to balance two contradictory objectives with regard to inventory management. On the one hand, the Company believes that its standard, off-the-shelf products should be available for prompt shipment to customers. Accordingly, it attempts to maintain sufficient levels of inventory in various product, package and speed configurations to meet estimates of customer demand. At the same time, the Company also wishes to minimize the handling costs associated with maintaining higher inventory levels and to realize fully the opportunities for cost reductions associated with architecture and manufacturing process advancements. The Company continually strives to balance these two objectives so as to provide excellent customer response at a competitive cost.

ADVANCES FOR WAFER PURCHASES. In fiscal 1997, the Company signed an agreement with Seiko Epson, a primary wafer supplier. This agreement was amended in fiscal 1998 and now provides 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 in the form of wafer deliveries, which began during the fourth quarter of fiscal 1998. Specific wafer pricing is based upon the prices of similar wafers manufactured by other, specifically identified, leading-edge foundry suppliers. The advance payment provision also provides for interest to be paid to the Company in the form of free wafers.

PROPERTY, PLANT AND EQUIPMENT. During 1998, Xilinx invested \$29.7 million in property and equipment, as compared to \$26.8 million in 1997. During 1998, the Company purchased land in Longmont, Colorado for approximately \$7 million and continued to invest in software development tools and semiconductor design, test and manufacturing equipment at each of its manufacturing locations.

CURRENT LIABILITIES. Current liabilities increased from \$97.3 million in fiscal 1997 to \$125.7 million at the end of 1998. The increase was primarily attributable to an increase in deferred income on shipments to distributors due to increased sales through distribution as well as distributor demand for new product lines.

LONG-TERM DEBT AND LINES OF CREDIT. In November 1995, the Company issued \$250 million in convertible subordinated notes. The Company has credit line facilities for up to \$46.2 million of which \$6.2 million is intended to meet occasional working capital requirements for the Company's Ireland manufacturing facility. At March 31, 1998 and 1997, no borrowings were outstanding under the lines of credit. See Note 5 of Notes to Consolidated Financial Statements.

STOCKHOLDERS' EQUITY. Stockholders' equity grew by 12.1% in 1998 to \$550.2 million. The increase of \$59.5 million was primarily attributable to \$126.6 million in net income and \$43.3 million related to the issuance of common stock and the tax benefit from stock options, partially offset by the \$93.8 million used to acquire treasury stock. Subsequent to March 31, 1998, the Company began an additional treasury stock program to purchase up to approximately 3 million shares as market and business conditions warrant. Stockholders' equity as a percentage of total assets was 58.5% for 1998 and 57.9% for 1997.

COMMITMENTS. The Company invested an additional \$67.4 million in the USIC joint venture in fiscal 1998 to bring the total investment in USIC at the end of fiscal 1998 to \$101.7 million. The Company currently holds a 25% equity ownership in USIC and the right to receive 31.25% of the wafer capacity from this facility. Under the terms of the agreement entered into between the Company and USIC, the Company may be required to make a third equity installment of up to an additional \$30.0 million in the joint venture during fiscal 1999, if warranted based on the capital and operational requirements of the joint venture. United Microelectronics Corporation (UMC) has committed to and is supplying the Company with wafers manufactured in an existing facility until capacity is available in the USIC facility. The Company is accounting for this investment using the equity method. See further discussion in Notes 4 and 6 of Notes to Consolidated Financial Statements. As the US dollar increased in value relative to the New Taiwan dollar during fiscal 1998, adjustments were made to the carrying value of the investment of approximately \$17 million since its inception. Offsetting amounts were recorded to the cumulative translation adjustment account within stockholders' equity.

EMPLOYEES. During 1998, Xilinx experienced a 9% increase in the number of its employees. The Company had 1,391 employees at the end of fiscal 1998 as compared to 1,277 at the end of the prior year.

The Company anticipates that existing sources of liquidity and cash flow from operations will be sufficient to satisfy the Company's cash needs for the foreseeable future. The Company will continue to evaluate opportunities for investments to obtain additional wafer supply capacity, procurement of additional capital equipment and facilities, development of new products, and potential acquisitions of businesses, products or technologies that would complement the Company's businesses and 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 competitive pressure and cyclical market patterns characterized by diminished product demand, limited visibility to demand for products further out than three to nine months, accelerated erosion of average selling prices and overcapacity. The Company's results of operations are affected by a wide variety of factors, including general economic conditions, conditions relating to technology companies, conditions specific to the semiconductor industry, decreases in average selling prices over the life of any particular product, the timing of new product introductions (by the Company, its competitors and others), 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, 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. Market demand for the Company's 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 the Company were unable to provide sufficient quantities of specified products in a given quarter. In addition, any difficulty in achieving targeted wafer production yields could adversely impact the Company's financial condition and results of operations. The Company attempts 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 the foregoing and other factors, past results, including those described in this report, are much less reliable predictors of the future than is the case in many older, more stable and less dynamic industries. Based on the factors noted herein, the Company may experience substantial period-to-period fluctuations in future operating results.

The Company's future success depends in large part on the continued service of its key technical, sales, marketing and management personnel and on its 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 the Company's financial condition and results of operations.

Sales and operations outside of the United States subject the Company to risks associated with conducting business in foreign economic and regulatory environments. The Company's financial condition and results of operations could be adversely impacted by unfavorable economic conditions in countries in which it does significant business and by changes in foreign currency exchange rates affecting those countries. Specifically, the Company has sales and operations in the Asian markets. The recent instability in the Asian financial markets has adversely impacted sales and may continue to adversely impact sales in those markets in several ways, including reduced access to sources of capital needed by customers to make purchases and increased exchange rate differentials that may adversely effect the customer's ability to purchase or the Company's ability to sell at competitive prices. In addition, the instability may increase credit risks as the recent weakening of certain Asian currencies may impair customers' ability to repay existing obligations. Depending on the situation in Asia in coming quarters, any or all of these factors could adversely impact the Company's financial condition and results of operations in the near future.

Additionally, risks include government regulation of exports, tariffs and other potential trade barriers, reduced protection for intellectual property rights in some countries, and generally longer receivable collection periods. The Company's 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. The Company cannot predict whether quotas, duties, taxes or other charges or restrictions will be imposed by the United States or other countries upon the importation or exportation of the Company's products in the future or what, if any, effect such actions would have on the Company's financial condition and results of operations.

In order to expand international sales and service, the Company will need to maintain and expand existing foreign operations or establish new foreign operations. This entails hiring additional personnel and maintaining or expanding existing relationships with international distributors and sales representatives. This will require significant management attention and financial resources

and could adversely affect the Company's financial condition and results of operations. There can be no assurance that the Company will be successful in its maintenance or expansion of existing foreign operations, in its establishment of new foreign operations or in its efforts to maintain or expand its relationships with international distributors or sales representatives.

Many of the Company's operations are centered in an area of California that has been seismically active. Should there be a major earthquake in this area, the Company's operations may be disrupted resulting in the inability of the Company to manufacture or ship products in a timely manner, thereby materially adversely affecting the Company's financial condition and results of operations.

In addition, 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 the Company's common stock.

DEPENDENCE UPON INDEPENDENT MANUFACTURERS AND SUBCONTRACTORS. The Company does not manufacture the wafers used for its products. During the past two years, most of the Company's wafers have been manufactured by Seiko Epson Corporation (Seiko Epson) and UMC. The Company has depended upon these suppliers and others to produce wafers with competitive performance and cost attributes, including transitioning to advanced manufacturing process technologies, producing wafers at acceptable yields, and delivering them to the Company in a timely manner. While the timeliness, yield and quality of wafer deliveries have met the Company's requirements to date, there can be no assurance that the Company's 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 or earthquakes as well as disrupted access to adequate supplies of electricity, natural gas or water would cause delays in shipments of the Company's products, and could have a material adverse effect on the Company's results of operations. The Company is 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 deliveries from these manufacturers and subcontractors, or any other circumstance that would require the Company to seek alternative sources of supply, could delay shipments, and have a material adverse effect on the Company's financial condition and results of operations.

The Company's growth will depend in large part on the Company's ability to obtain increased wafer fabrication capacity and assembly services from suppliers which are cost effective. In order to secure additional wafer capacity, the Company from time to time considers alternatives, including, without limitation, equity investments in, or loans, deposits, or other financial commitments to, independent wafer manufacturers to secure production capacity, or the use of contracts which commit the Company to purchase specified quantities of wafers over extended periods. Although the Company is currently able to obtain wafers from existing suppliers in a timely manner, the Company has at times 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 in satisfaction of customer delivery dates, as well as the ability of the Company to process products for shipment. In addition, a significant increase in general industry demand or any interruption of supply could reduce the Company's supply of wafers or increase the Company's cost of such wafers. Such events could have a material adverse affect on the Company's financial condition and results of operations.

LITIGATION. The Company is currently engaged in patent litigation with Altera Corporation (Altera). See Note 11 of Notes to Consolidated Financial Statements. The ultimate outcome of these matters cannot be determined at this time. Management believes that it has meritorious defenses to the claims asserted against it and is defending them vigorously. The foregoing is a forward looking statement subject to risks and uncertainties, and the future outcome could differ materially due to the uncertain nature of the litigation with Altera and because the lawsuits are still in the pre-trial stage.

DEPENDENCE ON NEW PRODUCTS. The Company's future success depends in large part on its ability to develop and introduce on a timely basis new products which address customer requirements and compete effectively on the basis of price, functionality and performance. The success of new product introductions is dependent upon several factors, including timely completion of new product designs, the ability to utilize advanced manufacturing process

technologies, achievement of acceptable yields, availability of supporting software design tools, utilization of predefined cores of logic and market acceptance. No assurance can be given that the Company's product development efforts will be successful or that its new products will achieve market acceptance. Revenues relating to some of the Company's mature products are expected to continue to decline in the future as a percentage of total revenues. As a result, the Company will be increasingly dependent on revenues derived from newer products. In addition, the average selling price for any particular product tends to decrease rapidly over the product's life. To offset such decreases, the Company relies 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 such that higher average selling prices and higher margins are achievable relative to mature product lines. To the extent that such cost reductions and new product introductions do not occur in a timely manner, or the Company's products do not achieve market acceptance at prices with higher margins, the Company's financial condition and results of operations could be materially adversely affected.

COMPETITION. The Company's field programmable gate arrays (FPGAs) and complex programmable logic devices (CPLDs) compete in the programmable logic marketplace, with a substantial majority of the Company's revenues derived from its FPGA product families. The industries in which the Company competes are intensely competitive and are characterized by rapid technological change, rapid product obsolescence and continuous price erosion. The Company expects significantly increased competition both from existing competitors and from a number of companies that may enter its market.

Xilinx believes that important competitive factors in the programmable logic market include price, product performance and reliability, adaptability of products to specific applications, ease of use and functionality of software design tools, functionality of predefined cores of logic and the ability to provide timely customer service and support. The Company's strategy for expansion in the programmable logic market includes continued introduction of new product architectures which address high volume, low cost applications as well as high performance, leading edge density applications and continued price reductions proportionate with the ability to lower the cost of manufacture for established products. However, there can be no assurance that the Company will be successful in achieving these strategies.

The Company's major sources of competition are comprised of several elements: the manufacturers of custom CMOS gate arrays, providers of high density programmable logic products characterized by FPGA-type architectures, providers of high speed, low density CPLDs devices and other providers of new or emerging programmable logic products. The Company competes with custom gate array manufacturers on the basis of lower design costs, shorter development schedules and reduced inventory risks. The primary attributes of custom gate arrays are high density, high speed and low production costs in high volumes. The Company continues to develop lower cost architectures intended to narrow the gap between current custom gate array production costs (in high volumes) and PLD production costs. The Company competes with high density programmable logic suppliers on the basis of performance, the ability to deliver complete solutions to customers, voltage and customer support, taking advantage of the primary characteristics of flexible, high speed implementation and quick time-to-market capabilities of the Company's PLD product offerings. Competition among CPLD suppliers is based primarily on price, performance, design, software utility and the ability to deliver complete solutions to customers. In addition, the Company competes with manufacturers of new or emerging programmable logic products on the basis of price, performance, customer support, software utility and the ability to deliver complete solutions to customers. Some of the Company's current or potential competitors have substantially greater financial, manufacturing, marketing and technical resources than Xilinx. To the extent that such efforts to compete are not successful, the Company's financial condition and results of operations could be materially adversely affected.

INTELLECTUAL PROPERTY. The Company relies upon patent, trademark, trade secret and copyright law to protect its intellectual property. There can be no assurance 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 competitors of the Company, have asserted patent, copyright and other intellectual property rights to technologies that are important to the Company. There can be no assurance that third parties will not assert infringement claims against the Company in the future, that assertions by third parties will not result in costly litigation or that the Company 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 cost and diversion of resources of the Company. Any infringement claim or other litigation against or by the Company could materially adversely affect the Company's financial condition and results of operations.

YEAR 2000 COMPLIANCE. As is the case with most other companies using computers in their operations, the Company is currently working to resolve the potential impact of the year 2000 on the processing of date-sensitive information by the Company's computerized information systems, as well as the vendor and customer date-sensitive computerized information electronically transferred to the Company. The year 2000 issue is the result of computer programs being written using two digits, rather than four, to define the applicable year. Any of the Company's systems that have time-sensitive software may recognize the year "00" as 1900 rather than the year 2000, which could result in miscalculations, classification errors or system failures. Based on preliminary information, costs of addressing potential problems are not currently expected to have a material adverse impact on the Company's financial position, results of operations or cash flows in future periods. However, if the Company, its customers or vendors are unable to resolve such processing issues on a timely basis, the Company's financial condition and results of operations could be adversely affected. Accordingly, the Company plans to devote the necessary resources to resolve all significant year 2000 issues in a timely manner.

MARKET RATE RISKS. INTEREST RATE RISK. The Company's exposure to interest rate risk relates primarily to the Company's investment portfolio and long-term debt obligations. See Note 5 of Notes to Consolidated Financial Statements. The Company's primary aim with its 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, corporate bonds, and US Treasury securities. In accordance with the Company's investment policy, the Company places investments with high credit quality issuers and limits 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. All securities have remaining maturities less than one year as of the balance sheet date, and the Company believes it has the ability to hold its investments until maturity. Therefore, the Company does not expect to recognize an adverse impact on income or cash flows, although there can be no assurance of this.

The Company is also subject to interest rate risk related to outstanding long-term debt. If long-term market interest rates decrease, the effective cost of the debt will increase. In order to mitigate the interest rate risks, the long-term debt fixed interest rate liability has been matched against the Company's short-term variable interest rate assets through a liability interest rate swap agreement. The liability swap exchanges one half of the underlying debt amount based on a fixed interest rate for the same amount based on variable interest rates. If interest rates rise by 10%, the cash flow impact of the swap would continue to be immaterial and would be offset by the increase in short-term investment interest rates. This contract was entered into for a two and a half-year period and will end in November 1998. As the long-term debt may be outstanding until November 2002, the Company will continue to evaluate its strategy related to the fixed rate debt.

The table below summarizes the Company's investment, debt and interest rate swap notional amounts as of March 31, 1998 as well as weighted average interest rates by year of maturity for the next five years and thereafter. The fair value as of March 31, 1998 is also shown.

(In thousands)	MATURITY DATE					Fair Value
	1999	2000	2001	2002	Total	March 31, 1998
ASSETS						
Available-for-sale securities	\$340,415	---	---	---	\$340,415	\$340,585
Average pre-tax interest rate	3.87%					
Held-to-maturity securities	\$ 36,271	---	---	---	\$ 36,271	\$ 36,266
Average interest rate	5.09%					
LIABILITIES						
Convertible long-term debt	---	---	---	\$250,000	\$250,000	\$255,000
Average interest rate	5.25%	5.25%	5.25%	5.25%		
INTEREST RATE DERIVATIVE FINANCIAL INSTRUMENTS						
Interest rate swap						
Pay variable/receive fixed	\$125,000	---	---	---	\$125,000	\$ 170
Average pay rate	USD 3 month Libor					
Average receive rate	5.94%					

FOREIGN CURRENCY RISK. Through fiscal year 1998, the Company's purchases of processed silicon wafers from Japanese foundries have been denominated in yen. To help offset the Company's exposure for yen denominated liabilities, the Company's sales to Japanese customers through fiscal 1998 have also been denominated in yen. The Company has periodically hedged its net exposure to fluctuations in the yen-to-US dollar exchange rates through the use of forward exchange or option contracts. However, beginning in fiscal 1999, most wafers purchased from Japanese suppliers will be denominated in US dollars. The Company also intends to begin invoicing Japanese customers in US dollars during the second half of fiscal 1999. For a period of time, wafers will be purchased in US dollars and invoicing to Japanese customers will continue to be in yen, resulting in a yen exposure. However, after invoicing begins in US dollars, the Company believes that its net yen exposure relating to fluctuations in the yen-to-US dollar exchange rate should decline, although there can be no assurance that this will be the case. As a result, the Company plans to adjust its future hedging strategy. In addition, the Company entered into foreign exchange forward contracts in fiscal 1997 to minimize the impact of future exchange fluctuations relating to its fiscal 1998 investment in the USIC joint venture, which was denominated in New Taiwan dollars. No currency forward or option contracts were outstanding as of March 31, 1998.

The Company has several subsidiaries and an equity investment in the USIC joint venture whose financial statements are recorded in currencies other than the US dollar. As these foreign currency financial statements are translated at each month end during consolidation, fluctuations of exchange rates between the foreign currency and the US 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 as a separate component of stockholders' equity as cumulative translation adjustments. To date, the USIC joint venture has recorded approximately \$17 million as cumulative translation adjustments, as the New Taiwan dollar has decreased in value against the US dollar. Also, as the Company's subsidiaries and the USIC joint venture maintain investments denominated in other than local currencies, exchange rate fluctuations will occur. USIC's net income to date has resulted largely from favorable foreign currency exchange gains on its US dollar denominated investments.