

XILINX INC
Form 10-Q
January 25, 2019

Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended December 29, 2018

or

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____ .

Commission File Number 000-18548

Xilinx, Inc.

(Exact name of registrant as specified in its charter)

Delaware	77-0188631
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

2100 Logic Drive, San Jose, California	95124
(Address of principal executive offices)	(Zip Code)
(408) 559-7778	

(Registrant's telephone number, including area code)

N/A

(Former name, former address, and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer,"

"accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐

Smaller reporting company ☐ Emerging growth company ☐

Edgar Filing: XILINX INC - Form 10-Q

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

Shares outstanding of the registrant's common stock:

Class	Shares Outstanding as of January 11, 2019
-------	---

Common Stock, \$0.01 par value	253,163,895
--------------------------------	-------------

Table of Contents

TABLE OF CONTENTS

<u>PART I. FINANCIAL INFORMATION</u>	<u>3</u>
<u>ITEM 1. FINANCIAL STATEMENTS</u>	<u>3</u>
<u>CONDENSED CONSOLIDATED STATEMENTS OF INCOME</u>	<u>3</u>
<u>CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME</u>	<u>4</u>
<u>CONDENSED CONSOLIDATED BALANCE SHEETS</u>	<u>5</u>
<u>CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS</u>	<u>6</u>
<u>NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS</u>	<u>7</u>
<u>ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	<u>27</u>
<u>ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	<u>34</u>
<u>ITEM 4. CONTROLS AND PROCEDURES</u>	<u>36</u>
 <u>PART II. OTHER INFORMATION</u>	 <u>37</u>
<u>ITEM 1. LEGAL PROCEEDINGS</u>	<u>37</u>
<u>ITEM 1A. RISK FACTORS</u>	<u>37</u>
<u>ITEM 2. UNREGISTERED SALE OF EQUITY SECURITIES AND USE OF PROCEEDS</u>	<u>47</u>
<u>ITEM 6. EXHIBITS</u>	<u>48</u>
<u>SIGNATURES</u>	<u>49</u>

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

XILINX, INC.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

(In thousands, except per share amounts)	Three Months Ended		Nine Months Ended	
	December 29, 2018	December 30, 2017 ^[1]	December 29, 2018	December 30, 2017 ^[1]
Net revenues	\$800,057	\$598,603	\$2,230,678	\$1,828,832
Cost of revenues	247,903	177,969	686,411	554,478
Gross margin	552,154	420,634	1,544,267	1,274,354
Operating expenses:				
Research and development	189,329	166,231	543,527	477,267
Selling, general and administrative	103,039	92,753	291,256	272,981
Amortization of acquisition-related intangibles	1,866	353	3,064	1,568
Total operating expenses	294,234	259,337	837,847	751,816
Operating income	257,920	161,297	706,420	522,538
Interest and other income (expense), net	(1,330)	5,469	2,231	9,138
Income before income taxes	256,590	166,766	708,651	531,676
Provision for income taxes	17,230	179,251	63,542	213,166
Net income (loss)	\$239,360	\$(12,485)	\$645,109	\$318,510
Net income (loss) per common share:				
Basic	\$0.95	\$(0.05)	\$2.55	\$1.28
Diluted	\$0.93	\$(0.05)	\$2.53	\$1.23
Cash dividends per common share	\$0.36	\$0.35	\$1.08	\$1.05
Shares used in per share calculations:				
Basic	253,060	254,089	252,634	248,671
Diluted	256,374	254,089	255,227	258,995

^[1] Prior year balances have been restated to reflect the retrospective application of the new revenue recognition accounting standard. Please refer to "Note 2. Recent Accounting Changes and Accounting Pronouncements."

See notes to condensed consolidated financial statements.

Table of Contents

XILINX, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

(In thousands)	Three Months Ended		Nine Months Ended	
	December 29, 2018	December 30, 2017 ^[1]	December 29, 2018	December 30, 2017 ^[1]
Net income (loss)	\$239,360	\$(12,485)	\$645,109	\$318,510
Other comprehensive income (loss), net of tax:				
Change in net unrealized gains (losses) on available-for-sale securities	7,029	(7,502)	3,244	(1,566)
Reclassification adjustment for (gains) losses on available-for-sale securities	(131)	1,259	(181)	1,154
Net change in unrealized gains (losses) on hedging transactions	(480)	1,583	(9,252)	3,781
Reclassification adjustment for (gains) losses on hedging transactions	2,522	(1,018)	4,693	(3,022)
Cumulative translation adjustment, net	5	394	(4,188)	2,831
Other comprehensive income (loss)	8,945	(5,284)	(5,684)	3,178
Total comprehensive income (loss)	\$248,305	\$(17,769)	\$639,425	\$321,688

^[1] Prior year balances have been restated to reflect the retrospective application of the new revenue recognition accounting standard. Please refer to "Note 2. Recent Accounting Changes and Accounting Pronouncements."

See notes to condensed consolidated financial statements.

Table of ContentsXILINX, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except par value amounts)	December 29, 2018 (unaudited)	March 31, 2018 ^[1]
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,929,521	\$ 2,179,328
Short-term investments	1,540,131	1,268,242
Accounts receivable, net	359,367	382,246
Inventories	283,329	236,077
Prepaid expenses and other current assets	60,004	88,695
Total current assets	4,172,352	4,154,588
Property, plant and equipment, at cost	880,281	855,023
Accumulated depreciation and amortization	(563,021)	(550,906)
Net property, plant and equipment	317,260	304,117
Long-term investments	83,803	97,896
Goodwill	340,719	162,421
Acquisition-related intangibles, net	82,532	4,123
Other assets	358,098	337,402
Total Assets	\$ 5,354,764	\$ 5,060,547
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 111,916	\$ 98,999
Accrued payroll and related liabilities	232,953	206,367
Income taxes payable	41,839	47,713
Other accrued liabilities	66,310	59,680
Current portion of long-term debt	499,851	499,186
Total current liabilities	952,869	911,945
Long-term debt	1,221,438	1,214,440
Long-term income taxes payable	489,411	523,864
Other long-term liabilities	53,851	49,945
Commitments and contingencies (Note 17)		
Stockholders' equity:		
Preferred stock, \$.01 par value (none issued and outstanding)	—	—
Common stock, \$.01 par value	2,531	2,534
Additional paid-in capital	942,744	878,672
Retained earnings	1,723,713	1,513,656
Accumulated other comprehensive loss	(31,793)	(34,509)
Total stockholders' equity	2,637,195	2,360,353
Total Liabilities and Stockholders' Equity	\$ 5,354,764	\$ 5,060,547

^[1] Prior year balances have been restated to reflect the retrospective application of the new revenue recognition accounting standard. Please refer to "Note 2. Recent Accounting Changes and Accounting Pronouncements."

See notes to condensed consolidated financial statements.

Table of Contents

XILINX, INC.
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
 (Unaudited)

(In thousands)	Nine Months Ended	
	December 29, 2018	December 30, 2017 [1]
Cash flows from operating activities:		
Net income	\$645,109	\$318,510
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	49,097	34,416
Amortization	23,461	12,619
Stock-based compensation	109,194	105,209
Amortization of debt discounts	890	2,254
Provision for deferred income taxes	(9,040)	(367,508)
Others	7,796	2,858
Changes in assets and liabilities:		
Accounts receivable, net	22,879	(98,365)
Inventories	(46,573)	367
Prepaid expenses and other current assets	13,151	(8,656)
Other assets	(25,141)	(27,292)
Accounts payable	11,013	(18,966)
Accrued liabilities	30,652	59,110
Income taxes payable	(29,280)	563,178
Net cash provided by operating activities	803,208	577,734
Cash flows from investing activities:		
Purchases of available-for-sale securities	(1,340,057)	(2,211,372)
Proceeds from sale and maturity of available-for-sale securities	1,080,850	1,939,245
Purchases of property, plant and equipment and other intangibles	(60,803)	(28,940)
Acquisition of business, net of cash acquired	(233,941)	(1,364)
Other investing activities	(37,572)	(16,423)
Net cash used in investing activities	(591,523)	(318,854)
Cash flows from financing activities:		
Repurchases of common stock	(161,551)	(310,806)
Taxes paid related to net share settlements of restricted stock units	(42,029)	(44,428)
Proceeds from issuance of common stock through various stock plans	18,436	19,602
Payment of dividends to stockholders	(272,860)	(263,751)
Repayment of convertible debt	—	(457,918)
Proceeds from issuance of long-term debt, net	—	745,175
Other financing activities	(3,488)	(1,988)
Net cash used in financing activities	(461,492)	(314,114)
Net (decrease) increase in cash and cash equivalents	(249,807)	(55,234)
Cash and cash equivalents at beginning of period	2,179,328	966,695
Cash and cash equivalents at end of period	\$1,929,521	\$911,461
Supplemental disclosure of cash flow information:		
Interest paid	\$57,514	\$38,115
Income taxes paid, net	\$101,557	\$18,093

^[1] Prior year balances have been restated to reflect the retrospective application of the new revenue recognition accounting standard. Please refer to "Note 2. Recent Accounting Changes and Accounting Pronouncements."

See notes to condensed consolidated financial statements.

Table of Contents

XILINX, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1. Basis of Presentation

The accompanying interim condensed consolidated financial statements have been prepared in conformity with United States (U.S.) generally accepted accounting principles (GAAP) for interim financial information and the instructions to Form 10-Q and Article 10 of Regulation S-X, and should be read in conjunction with the Xilinx, Inc. (Xilinx or the Company) consolidated financial statements filed with the U.S. Securities and Exchange Commission (SEC) on Form 10-K for the fiscal year ended March 31, 2018. The interim financial statements are unaudited, but reflect all adjustments which are, in the opinion of management, of a normal, recurring nature necessary to provide a fair statement of results for the interim periods presented. The results of operations for the interim periods shown in this report are not necessarily indicative of the results that may be expected for the fiscal year ending March 30, 2019 or any future period.

The Company uses a 52- to 53-week fiscal year ending on the Saturday nearest March 31. Fiscal 2019 and fiscal 2018 are both 52-week years ending on March 30, 2019 and March 31, 2018, respectively. The quarters ended December 29, 2018 and December 30, 2017 each consisted of 13 weeks.

Note 2. Recent Accounting Changes and Accounting Pronouncements

Recent Accounting Pronouncements Adopted

Revenue Recognition

In April 2014, the Financial Accounting Standards Board (FASB) issued the authoritative guidance, as amended, that outlines a new revenue recognition standard that replaces virtually all existing U.S. GAAP guidance on contracts with customers and the related other assets and deferred costs. The authoritative guidance provides a five-step process for recognizing revenue that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled, in exchange for those goods or services. The new guidance also requires expanded qualitative and quantitative disclosures relating to the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The new guidance is required to be applied retrospectively to each prior reporting period presented (Full Retrospective), or retrospectively with the cumulative effect of initially applying it recognized at the date of initial application. The Company adopted the new guidance on April 1, 2018, using the Full Retrospective method and restated the comparative prior periods. The Company implemented internal controls and certain system functionality to enable the preparation of financial information on adoption.

As a result of the adoption of the authoritative guidance, the Company changed its accounting policy for revenue recognition and the details of the significant changes and quantitative impact of the changes are disclosed below: Revenue from sales to the Company's distributors is recognized upon shipment of the product to the distributors (sell-in) and is reduced by estimated allowances for distributor price adjustments and rights of return. Previously, revenue was recognized upon reported resale of the product by the distributors to their customers (sell-through) as reduced by actual allowances for distributor price adjustments. Revenue from software license agreements, software license renewals, and other contracts are recognized at point of sales, whereas previously these were deferred and recognized over the contractual term before the implementation of the authoritative guidance. Revenue recognition related to the Company's other revenue streams, such as direct customers, remains unchanged.

The adoption of this authoritative guidance has an impact on the Company's condensed consolidated statements of income and balance sheets, but has no impact on net cash provided by or used in operating, financing, or investing activities on the condensed consolidated statements of cash flows.

The impact on the Company's previously reported condensed consolidated statement of income resulting from the adoption of the authoritative guidance is as follows:

7

Table of Contents

(In thousands, except per share amounts)	Three Months Ended December 30, 2017		Nine Months Ended December 30, 2017	
	As Reported	As Adjusted	As Reported	As Adjusted
Net revenues	\$631,193	\$598,603	\$1,866,142	\$1,828,832
Cost of revenues	182,156	177,969	559,037	554,478
Gross margin	449,037	420,634	1,307,105	1,274,354
Operating expenses:				
Research and development	166,231	166,231	477,267	477,267
Selling, general and administrative	92,753	92,753	272,981	272,981
Amortization of acquisition-related intangibles	353	353	1,568	1,568
Total operating expenses	259,337	259,337	751,816	751,816
Operating income	189,700	161,297	555,289	522,538
Interest and other income, net	5,469	5,469	9,138	9,138
Income before income taxes	195,169	166,766	564,427	531,676
Provision for income taxes	183,224	179,251	217,705	213,166
Net income (loss)	\$11,945	\$(12,485)	\$346,722	\$318,510
Net income (loss) per common share:				
Basic	\$0.05	\$(0.05)	\$1.39	\$1.28
Diluted	\$0.05	\$(0.05)	\$1.34	\$1.23
Shares used in per share calculations:				
Basic	254,089	254,089	248,671	248,671
Diluted	258,108	254,089	258,995	258,995
The impact on the Company's previously reported condensed consolidated balance sheet line items affected by the adoption of the authoritative guidance is as follows:				
	March 31, 2018			
(In thousands)	As Reported	As Adjusted		
Accounts receivable	\$372,144	\$382,246		
Other assets	342,644	337,402		
Deferred income on shipments to distributors	25,166	—		
Other accrued liabilities	59,772	59,680		
Retained earnings	\$1,483,538	\$1,513,656		

Financial Instruments

In January 2016, the FASB issued final authoritative guidance regarding how companies measure equity investments that do not result in consolidation and are not accounted for under the equity method and how they present changes in the fair value of financial liabilities measured under the fair value option that are attributable to their own credit. The authoritative guidance also changes certain disclosure requirements and other aspects of current U.S. GAAP on this matter. The authoritative guidance does not change the guidance for classifying and measuring investments in debt securities and loans. The authoritative guidance is effective for public business entities for annual periods beginning after December 15, 2017, and interim periods within those annual periods. The Company adopted this authoritative guidance on April 1, 2018 and recorded the balance of the unrealized losses of \$11.0 million as of the end of fiscal 2018 from its investment in debt mutual funds and equity securities to retained earnings, less the related deferred taxes of \$2.6 million. Subsequent changes in fair value from such investments are recorded in the condensed consolidated statements of income.

Table of Contents

Income Taxes

In October 2016, the FASB issued authoritative guidance on income taxes which eliminates the deferred tax effects of intra-entity asset transfers other than inventory. As a result, a reporting entity would recognize the tax expense from the sale of an asset in the seller's tax jurisdiction when the transfer occurs, even though the pre-tax effects of that transaction are eliminated in consolidation. The authoritative guidance is effective for public business entities in fiscal years beginning after December 15, 2017 and requires the adoption be applied on a modified retrospective basis through a cumulative-effect adjustment to retained earnings. The Company adopted this authoritative guidance on April 1, 2018. Accordingly, \$13.8 million of prepaid taxes associated with prior period intra-entity asset transfers was reclassified to retained earnings.

Recent Accounting Pronouncements Not Yet Adopted

Leases

In February 2016, the FASB issued authoritative guidance on leases. The new authoritative guidance requires the recognition of assets and liabilities arising from lease transactions on the balance sheet and will also require significant additional disclosures about the amount, timing and uncertainty of cash flows from leases. Accordingly, a lessee will recognize a lease asset for its right to use the underlying asset and a lease liability for the corresponding lease obligation. The new authoritative guidance is effective for public business entities for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years, which for Xilinx would be the first quarter of fiscal 2020. Even though early adoption is permitted, Xilinx has decided not to early adopt such authoritative guidance. This authoritative guidance must be adopted using a modified retrospective transition with application of the new authoritative guidance for leases that existed at or are entered after the beginning of the earliest comparative period presented. To help with the transition to the new guidance, certain practical expedients are provided.

On July 30, 2018, the FASB provided entities with an additional (and optional) transition method to adopt the new lease requirements by allowing entities to initially apply the requirements by recognizing a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. Consequently, an entity's reporting for the comparative periods presented in the financial statements in which the entity adopts the new lease requirements would continue to be in accordance with current GAAP. An entity electing this additional (and optional) transition method must provide the required disclosures for all periods that continue to be in accordance with current GAAP. The amendments do not change the existing disclosure requirements in current GAAP. The amendments have the same effective date as the new leases standard, which for Xilinx would be the first quarter of fiscal 2020.

The Company plans to adopt the new standard using the optional adoption method and apply the guidance to leases existing at, or entered into after, the beginning of the period of adoption, as well as certain practical expedients permitted under the transition guidance. The Company is currently evaluating the application of the new guidance and it believes the impact upon adoption will be the recognition of right-of-use assets and lease liabilities on the Company's consolidated balance sheets of an insignificant amount.

Cloud Computing Arrangements

On August 29, 2018, the FASB issued new guidance requiring a customer in a cloud computing arrangement (i.e., hosting arrangement) that is a service contract to follow the internal-use software guidance to determine which implementation costs to capitalize as assets or expense as incurred. Capitalized implementation costs related to a hosting arrangement that is a service contract will be amortized over the term of the hosting arrangement, beginning when the module or component of the hosting arrangement is ready for its intended use. Entities will need to maintain

appropriate records to capture the portion of their costs that qualify for capitalization. For public entities, the guidance is effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years, which for Xilinx would be the first quarter of fiscal 2021. Early adoption is permitted, including adoption in any interim period. Entities have the option to apply the guidance prospectively to all implementation costs incurred after the date of adoption or retrospectively. The Company is currently evaluating the impact of this new authoritative guidance on its condensed consolidated financial statements.

Note 3. Significant Customers and Concentrations of Credit Risk

Avnet, Inc. (Avnet), one of the Company's distributors, distributes the Company's products worldwide. As of December 29, 2018 and March 31, 2018, Avnet accounted for 40% and 61% of the Company's total net accounts receivable, respectively. The Company expects its accounts receivable to fluctuate as the Company partners with its distributors to manage their inventory requirements. For the third quarter and first nine months of fiscal 2019, Avnet's revenue accounted for 42% and 46% of the Company's worldwide

Table of Contents

net revenues, respectively. For the third quarter and first nine months of fiscal 2018, Avnet's revenue accounted for 41% and 43% of the Company's worldwide net revenues, respectively.

Xilinx is subject to concentrations of credit risk primarily in its trade accounts receivable and investments in debt securities to the extent of the amounts recorded on the condensed consolidated balance sheet. The Company attempts to mitigate the concentration of credit risk in its trade receivables through its credit evaluation process, collection terms, distributor sales to diverse end customers and through geographical dispersion of sales. Xilinx generally does not require collateral for receivables from its end customers or distributors.

No end customer accounted for more than 10% of the Company's worldwide net revenues for the third quarter and first nine months of fiscal 2019 and 2018.

The Company mitigates concentrations of credit risk in its investments in debt securities by currently investing approximately 93% of its portfolio in AA (or its equivalent) or higher grade securities as rated by Standard & Poor's or Moody's Investors Service. The Company's methods to arrive at investment decisions are not solely based on the rating agencies' credit ratings. Xilinx also performs additional credit due diligence and conducts regular portfolio credit reviews, including a review of counterparty credit risk related to the Company's forward currency exchange and interest rate swap contracts. Additionally, Xilinx limits its investments in the debt securities of a single issuer based upon the issuer's credit rating and attempts to further mitigate credit risk by diversifying risk across geographies and type of issuer.

As of December 29, 2018, approximately 20% of the portfolio consisted of mortgage-backed securities. All of the mortgage-backed securities in the investment portfolio were issued by U.S. government-sponsored enterprises and agencies and are rated AA+ by Standard & Poor's and Aaa by Moody's Investors Service.

Note 4. Fair Value Measurements

The authoritative guidance for fair value measurements established by the FASB defines fair value as the exchange price that would be received from selling an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities required or permitted to be recorded at fair value, the Company considers the principal or most advantageous market in which Xilinx would transact. The Company also considers assumptions that market participants would use when pricing the asset or liability, such as inherent risk, transfer restrictions and risk of nonperformance.

The Company determines the fair value for marketable debt securities using industry standard pricing services, data providers and other third-party sources and by internally performing valuation testing and analysis. The Company primarily uses a consensus price or weighted-average price for its fair value assessment. The Company determines the consensus price using market prices from a variety of industry standard pricing services, data providers, security master files from large financial institutions and other third-party sources and uses those multiple prices as inputs into a distribution-curve-based algorithm to determine the daily market value. The pricing services use multiple inputs to determine market prices, including reportable trades, benchmark yield curves, credit spreads and broker/dealer quotes as well as other industry and economic events. For certain securities with short maturities, such as discount commercial paper and certificates of deposit, the security is accreted from purchase price to face value at maturity. If a subsequent transaction on the same security is observed in the marketplace, the price on the subsequent transaction is used as the current daily market price and the security will be accreted to face value based on the revised price.

The Company validates the consensus prices by taking random samples from each asset type and corroborating those prices using reported trade activity, benchmark yield curves, binding broker/dealer quotes or other relevant price information. There have not been any changes to the Company's fair value methodology during the third quarter and first nine months of fiscal 2019 and the Company did not adjust or override any fair value measurements as of December 29, 2018.

Fair Value Hierarchy

The fair value framework requires the categorization of assets and liabilities into three levels based upon the assumptions (inputs) used to price the assets or liabilities. The guidance for fair value measurements requires that assets and liabilities carried at fair value be classified and disclosed in one of the following categories:

Level 1 — Quoted (unadjusted) prices in active markets for identical assets or liabilities.

The Company's Level 1 assets consist of U.S. government securities, money market funds and marketable equity securities.

Table of Contents

Level 2 — Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the asset or liability.

The Company's Level 2 assets consist of financial institution securities, non-financial institution securities, U.S. agency securities, foreign government and agency securities, mortgage-backed securities, debt mutual funds, asset-backed securities and commercial mortgage-backed securities. The Company's Level 2 assets and liabilities also include foreign currency forward contracts and interest rate swap contracts.

Level 3 — Unobservable inputs to the valuation methodology that are supported by little or no market activity and that are significant to the measurement of the fair value of the assets or liabilities. Level 3 assets and liabilities include those whose fair value measurements are determined using pricing models, discounted cash flow methodologies or similar valuation techniques, as well as significant management judgment or estimation.

The Company has no Level 3 assets and liabilities measured at fair value on a recurring basis.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

In instances where the inputs used to measure fair value fall into different levels of the fair value hierarchy, the fair value measurement has been determined based on the lowest level input that is significant to the fair value measurement in its entirety. The Company's assessment of the significance of a particular item to the fair value measurement in its entirety requires judgment, including the consideration of inputs specific to the asset or liability. The following tables present information about the Company's assets and liabilities measured at fair value on a recurring basis as of December 29, 2018 and March 31, 2018:

Table of Contents

(In thousands)	December 29, 2018			
	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Assets				
Cash equivalents:				
Money market funds	\$408,025	\$—	\$	—\$408,025
Financial institution securities	—	399,368	—	399,368
Non-financial institution securities	—	390,622	—	390,622
U.S. government and agency securities	159,974	160,110	—	320,084
Foreign government and agency securities	—	325,996	—	325,996
Short-term investments:				
Financial institution securities	—	225,000	—	225,000
Non-financial institution securities	—	232,463	—	232,463
U.S. government and agency securities	2,654	87,880	—	90,534
Foreign government and agency securities	—	74,959	—	74,959
Mortgage-backed securities	—	705,284	—	705,284
Asset-backed securities	—	83,005	—	83,005
Commercial mortgage-backed securities	—	124,820	—	124,820
Marketable equity securities	4,066	—	—	4,066
Long-term investments:				
Debt mutual funds	—	83,803	—	83,803
Total assets measured at fair value	\$574,719	\$2,893,310	\$	—\$3,468,029
Liabilities				
Derivative financial instruments, net	\$—	\$25,578	\$	—\$25,578
Total liabilities measured at fair value	\$—	\$25,578	\$	—\$25,578
Net assets measured at fair value	\$574,719	\$2,867,732	\$	—\$3,442,451

Table of Contents

(In thousands)	March 31, 2018			
	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Assets				
Cash equivalents:				
Money market funds	\$1,291,891	\$—	\$—	\$1,291,891
Financial institution securities	—	359,901	—	359,901
Non-financial institution securities	—	242,904	—	242,904
U.S. government and agency securities	996	34,999	—	35,995
Foreign government and agency securities	—	179,957	—	179,957
Short-term investments:				
Financial institution securities	—	75,000	—	75,000
Non-financial institution securities	—	81,939	—	81,939
U.S. government and agency securities	3,639	19,008	—	22,647
Mortgage-backed securities	—	844,397	—	844,397
Asset-backed securities	—	91,389	—	91,389
Commercial mortgage-backed securities	—	152,870	—	152,870
Long-term investments:				
Debt mutual funds	—	89,670	—	89,670
Marketable equity securities	8,226	—	—	8,226
Total assets measured at fair value	\$1,304,752	\$2,172,034	\$—	\$3,476,786
Liabilities				
Derivative financial instruments, net	\$—	\$26,091	\$—	\$26,091
Total liabilities measured at fair value	\$—	\$26,091	\$—	\$26,091
Net assets measured at fair value	\$1,304,752	\$2,145,943	\$—	\$3,450,695

For certain of the Company's financial instruments, including cash held in banks, accounts receivable and accounts payable, the carrying amounts approximate fair value due to their short maturities, and are therefore excluded from the fair value tables above.

Financial Instruments Not Recorded at Fair Value on a Recurring Basis

The Company's \$500.0 million principal amount of 2.125% notes due March 15, 2019 (2019 Notes), \$500.0 million principal amount of 3.000% notes due March 15, 2021 (2021 Notes) and \$750.0 million principal amount of 2.950% senior notes due June 1, 2024 (2024 Notes) are measured at fair value on a quarterly basis for disclosure purposes. The fair values of the 2019 Notes, 2021 Notes and 2024 Notes as of December 29, 2018 were approximately \$498.7 million, \$498.0 million and \$716.0 million, respectively, based on the last trading price for the period (classified as Level 2 in fair value hierarchy due to relatively low trading volume).

Assets and Liabilities Measured at Fair Value on a Non-Recurring Basis

As of December 29, 2018, the Company had non-marketable equity securities in private companies of \$61.0 million, which were classified as Level 3 assets. The Company's investments in non-financial assets such as property, plant and equipment, goodwill and acquisition-related intangibles, are recorded at fair value only if the Company recognizes an impairment. The Company's investments in non-marketable securities of private companies are also recorded at fair value if the Company recognizes an observable price adjustment or an impairment. Such impairment losses or observable price adjustments were not material during all periods presented.

Note 5. Financial Instruments

Table of Contents

The following is a summary of cash equivalents, available-for-sale securities and equity-type securities as of the end of the periods presented:

(In thousands)	December 29, 2018				March 31, 2018			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Money market funds	\$408,025	\$ —	\$ —	\$408,025	\$1,291,891	\$ —	\$ —	\$1,291,891
Financial institution securities	624,368	—	—	624,368	434,901	—	—	434,901
Non-financial institution securities	624,516	—	(1,431)	623,085	326,219	—	(1,376)	324,843
U.S. government and agency securities	410,858	17	(257)	410,618	58,913	1	(272)	58,642
Foreign government and agency securities	400,952	3	—	400,955	179,957	—	—	179,957
Mortgage-backed securities	723,874	457	(19,047)	705,284	866,048	660	(22,311)	844,397
Asset-backed securities	83,943	5	(943)	83,005	92,751	16	(1,378)	91,389
Debt mutual funds	101,350	—	(17,547)	83,803	101,350	—	(11,680)	89,670
Commercial mortgage-backed securities	127,517	—	(2,697)	124,820	156,296	1	(3,427)	152,870
Marketable equity securities	6,713	—	(2,647)	4,066	7,500	726	—	8,226
	\$3,512,116	\$ 482	\$(44,569)	\$3,468,029	\$3,515,826	\$ 1,404	\$(40,444)	\$3,476,786

Financial institution securities include securities issued or managed by financial institutions in various forms, such as commercial paper and time deposits. Substantially all time deposits were issued by institutions outside the U.S. as of December 29, 2018 and March 31, 2018.

The following tables show the fair values and gross unrealized losses of the Company's investments, aggregated by investment category, for individual securities that have been in a continuous unrealized loss position for the length of time specified, as of December 29, 2018 and March 31, 2018:

(In thousands)	December 29, 2018					
	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Non-financial institution securities	\$8,973	\$(186)	\$51,299	\$(1,245)	\$60,272	\$(1,431)
U.S. government and agency securities	—	—	15,588	(257)	15,588	(257)
Mortgage-backed securities	70,541	(962)	612,871	(18,085)	683,412	(19,047)
Asset-backed securities	3,051	(5)	78,664	(938)	81,715	(943)

Edgar Filing: XILINX INC - Form 10-Q

Commercial mortgage-
backed securities

5,551	(74	)	119,268	(2,623	)	124,819	(2,697	)
\$88,116	\$ (1,227	)	\$877,690	\$ (23,148	)	\$965,806	\$ (24,375	)

Table of Contents

(In thousands)	March 31, 2018					
	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Non-financial institution securities	\$69,780	\$(1,146)	\$8,344	\$(230)	\$78,124	\$(1,376)
U.S. government and agency securities	13,471	(176)	9,176	(96)	22,647	(272)
Mortgage-backed securities	510,988	(11,048)	299,663	(11,263)	810,651	(22,311)
Asset-backed securities	57,128	(876)	32,696	(502)	89,824	(1,378)
Debt mutual funds	—	—	89,670	(11,680)	89,670	(11,680)
Commercial mortgage-backed securities	95,435	(1,760)	56,051	(1,667)	151,486	(3,427)
	\$746,802	\$(15,006)	\$495,600	\$(25,438)	\$1,242,402	\$(40,444)

As of December 29, 2018, the gross unrealized losses that had been outstanding for less than twelve months were primarily related to mortgage-backed securities due to the general rising of the interest-rate environment. The gross unrealized losses that had been outstanding for more than twelve months were primarily related to mortgage-backed securities, which was primarily due to the general rising of the interest-rate environment.

Starting April 1, 2018, the Company records the change in the fair value of its investment in debt mutual funds and marketable equity securities as part of its interest and other income, net. This change in fair value was a net decrease of \$3.0 million and \$9.2 million for the three and nine months ended December 29, 2018, respectively, and resulted in an expense within interest and other income (expense), net for the period in the condensed consolidated statements of income.

The Company reviewed the investment portfolio and determined that the gross unrealized losses on these investments as of December 29, 2018 and March 31, 2018 were temporary in nature as evidenced by the fluctuations in the gross unrealized losses within the investment categories. The marketable debt securities (financial institution securities, non-financial institution securities, U.S. and foreign government and agency securities, asset-backed securities, mortgage-backed securities and commercial mortgage-backed securities) are highly rated by the credit rating agencies, there have been no defaults on any of these securities and the company has received interest payments as they become due. Therefore, the Company believes that it will be able to collect both principal and interest amount due to the Company. Additionally, in the past several years a portion of the Company's investment in the mortgage-backed securities was redeemed or prepaid by the debtors at par. Furthermore, the aggregate of individual unrealized losses that had been outstanding for twelve months or more was not significant as of December 29, 2018 and March 31, 2018. The Company neither intends to sell the marketable debt securities nor concludes that it is more-likely-than-not that it will have to sell them until recovery of their carrying values.

The amortized cost and estimated fair value of marketable debt securities by contractual maturity, are shown in the table below. Actual maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations without call or prepayment penalties.

(In thousands)	December 29, 2018	
	Amortized Cost	Estimated Fair Value
Due in one year or less	\$2,024,661	\$2,024,330
Due after one year through five years	147,426	144,688

Edgar Filing: XILINX INC - Form 10-Q

Due after five years through ten years	136,684	133,375
Due after ten years	687,257	669,742
	\$2,996,028	\$2,972,135

As of December 29, 2018, \$947.4 million of marketable debt securities with contractual maturities of greater than one year were classified as short-term investments. Additionally, the above table does not include investments in money market, debt mutual funds and marketable equity securities because these investments do not have specific contractual maturities.

Table of Contents

Certain information related to available-for-sale securities is as follows:

(In thousands)	Three Months Ended		Nine Months Ended	
	December 29, 2018	December 30, 2017	December 29, 2018	December 30, 2017
Proceeds from sale of available-for-sale securities	\$12,692	\$124,857	\$13,594	\$394,276
Gross realized gains on sale of available-for-sale securities	\$173	\$153	\$269	\$1,504
Gross realized losses on sale of available-for-sale securities	(114)	(2,267)	(162)	(2,862)
Net realized gains (losses) on sale of available-for-sale securities	\$59	\$(2,114)	\$107	\$(1,358)
Amortization of premiums on available-for-sale securities	\$1,403	\$4,225	\$6,539	\$14,437

The cost of securities matured or sold is based on the specific identification method.

Note 6. Derivative Financial Instruments

The Company's primary objective for holding derivative financial instruments is to manage foreign currency exchange rate risk and interest rate risk. As a result of the use of derivative financial instruments, the Company is exposed to the risk that counterparties to derivative contracts may fail to meet their contractual obligations. The Company manages counterparty credit risk in derivative contracts by reviewing counterparty creditworthiness on a regular basis, establishing collateral requirement and limiting exposure to any single counterparty. The right of set-off that exists with certain transactions enables the Company to net amounts due to and from the counterparty, reducing the maximum loss from credit risk in the event of counterparty default.

The Company entered into interest rate swap contracts with certain independent financial institutions to manage interest rate risks related to fixed interest rate expenses from its 2024 Notes and floating interest rate income from its investments in marketable debt securities. See "Note 10. Debt and Credit Facility" for more discussion related to interest rate swap contracts. The interest rate swap contracts were designated and qualified as fair value hedges of the 2024 Notes and were separately accounted for as a derivative. The interest rate swap contracts and the 2024 Notes were initially measured at fair value. Any subsequent changes in fair values of the interest rate swap contracts and the 2024 Notes will be recorded in the Company's consolidated balance sheets. During the nine months ended December 29, 2018, the net change in fair values of the interest rate swap contracts and the underlying 2024 Notes was \$5.9 million, which was recorded as a derivative liability for the interest rate swap contracts and as a reduction from the carrying amount of the 2024 Notes. There was no ineffectiveness during all periods presented.

Note 7. Stock-Based Compensation Plans

The Company's equity incentive plans are broad-based, long-term retention programs that cover employees, consultants and non-employee directors of the Company. These plans are intended to attract and retain talented employees, consultants and non-employee directors and to provide such persons with a proprietary interest in the Company.

Stock-Based Compensation

The following table summarizes stock-based compensation expense related to stock awards granted under the Company's equity incentive plans and rights to acquire stock granted under the Company's Employee Stock Purchase Plan (ESPP):

Edgar Filing: XILINX INC - Form 10-Q

(In thousands)	Three Months Ended		Nine Months Ended	
	December 30, 2018	December 30, 2017	December 30, 2018	December 30, 2017
Stock-based compensation included in:				
Cost of revenues	\$2,366	\$ 2,188	\$6,650	\$ 6,486
Research and development	22,352	20,217	63,329	57,779
Selling, general and administrative	13,923	14,396	39,215	40,944
	\$38,641	\$ 36,801	\$109,194	\$ 105,209

Table of Contents

Employee Stock Option Plans

The types of awards allowed under the 2007 Equity Incentive Plan (2007 Equity Plan) include incentive stock options, non-qualified stock options, restricted stock units (RSUs), restricted stock and stock appreciation rights. To date, the Company has issued a mix of non-qualified stock options and RSUs under the 2007 Equity Plan; however, there was no issuance of stock options during the first nine months of fiscal 2019 and the entire fiscal 2018. The Company's stock-based compensation expenses related to options during the first nine months of fiscal 2019 and the number of options outstanding as of December 29, 2018 were not material. On August 1, 2018, the stockholders approved an amendment to increase the authorized number of shares reserved for issuance under the 2007 Equity Plan by 3.0 million shares. As of December 29, 2018, 11.5 million shares remained available for grant under the 2007 Equity Plan.

RSU Awards

A summary of the Company's RSU activity and related information is as follows:

(Shares in thousands) of	RSUs Outstanding	
	Number	Weighted-Average
	Shares	Grant-Date Fair Value Per Share
April 1, 2017	6,988	\$ 42.93
Granted	3,718	\$ 60.18
Vested	(3,016)	\$ 43.30
Cancelled	(701)	\$ 48.16
March 31, 2018	6,989	\$ 51.39
Granted	3,271	\$ 64.21
Vested	(2,433)	\$ 48.90
Cancelled	(398)	\$ 53.79
December 29, 2018	7,429	\$ 57.69

The estimated fair values of RSUs were calculated based on the market price of Xilinx common stock on the date of grant, reduced by the present value of dividends expected to be paid on Xilinx common stock prior to vesting. The per share weighted-average fair value of RSUs granted during the third quarter of fiscal 2019 was \$75.72 (\$67.40 for the third quarter of fiscal 2018), and for the first nine months of fiscal 2019 was \$64.21 (\$60.36 for the first nine months of fiscal 2018), which were calculated based on estimates at the date of grant using the following weighted-average assumptions:

	Three Months Ended		Nine Months Ended	
	December 29, 2018	December 30, 2017	December 29, 2018	December 30, 2017
Risk-free interest rate	3.0 %	1.9 %	2.7 %	1.8 %
Dividend yield	1.8 %	2.0 %	2.1 %	2.2 %

For the majority of RSUs granted, the number of shares of common stock issued on the date the RSU awards vest is net of the minimum statutory withholding requirements that the Company pays in cash to the appropriate taxing authorities on behalf of the Company's employees. During the first nine months of fiscal 2019 and 2018, the Company withheld \$42.0 million and \$44.4 million worth of RSU awards, respectively, to satisfy the employees' tax obligations.

During the third quarter and the first nine months of fiscal 2019, the Company realized excess tax benefits of \$1.5 million

and \$10.2 million, respectively, primarily from RSU vesting. During the third quarter of fiscal 2018, the Company realized an immaterial amount of excess tax benefits. During the first nine months of fiscal 2018, the Company realized excess tax benefits of \$17.5 million. These tax benefits were recorded in the condensed consolidated statements of income as a component of the provision for income taxes.

Employee Stock Purchase Plan

Table of Contents

Under the ESPP, shares are only issued during the second and fourth quarters of each fiscal year. Employees purchased 359 thousand shares for \$18.0 million during the second quarter of fiscal 2019 and 355 thousand shares for \$16.9 million during the second quarter of fiscal 2018. The per-share weighted-average fair value of stock purchase rights granted under the ESPP during the second quarter of fiscal 2019 and 2018 was \$19.06 and \$16.46, respectively. The fair values of stock purchase plan rights granted in the second quarter of fiscal years 2019 and 2018 were estimated using the Black-Scholes option pricing model at the date of grant using the following assumptions:

	2019	2018
Expected life of options (years)	1.25	1.25
Expected stock price volatility	0.29	0.28
Risk-free interest rate	2.5 %	1.3 %
Dividend yield	2.0 %	2.2 %

The next scheduled purchase under the ESPP is in the fourth quarter of fiscal 2019. On August 1, 2018, the stockholders approved an amendment to increase the authorized number of shares reserved for issuance under the ESPP by 3.0 million shares. As of December 29, 2018, 12.0 million shares were available for future issuance under the ESPP.

Note 8. Net Income Per Common Share

The computation of basic net income per common share for all periods presented is derived from information on the condensed consolidated statements of income, and there are no reconciling items in the numerator used to compute the diluted net income per common share. The following table summarizes the computation of basic and diluted net income per common share:

(In thousands, except per share amounts)	Three Months Ended		Nine Months Ended	
	December 29, 2018	December 30, 2017 ^[1]	December 29, 2018	December 30, 2017 ^[1]
Net income available to common stockholders	\$239,360	\$(12,485)	\$645,109	\$318,510
Weighted average common shares outstanding-basic	253,060	254,089	252,634	248,671
Dilutive effect of employee equity incentive plans	3,314	—	2,593	2,843
Dilutive effect of 2017 Convertible Notes	—	—	—	1,990
Dilutive effect of warrants	—	—	—	5,491
Weighted average common shares outstanding-diluted	256,374	254,089	255,227	258,995
Basic net income per common share	\$0.95	\$(0.05)	\$2.55	\$1.28
Diluted net income per common share	\$0.93	\$(0.05)	\$2.53	\$1.23

^[1] Prior year balances have been restated to reflect the retrospective application of the new revenue recognition accounting standard. Please refer to "Note 2. Recent Accounting Changes and Accounting Pronouncements."

The total shares used in the denominator of the diluted net income per common share calculation include potentially dilutive common equivalent shares outstanding that are not included in basic net income per common share calculation. The diluted shares were calculated by applying the treasury stock method to the impact of the equity incentive plans, the incremental shares issuable assuming conversion of the Company's \$600.0 million principal amount of 2.625% convertible notes issued in June 2010 (2017 Convertible Notes), before its maturity on June 15, 2017, and exercise of warrants on a weighted-average outstanding basis, before the final settlements during the third quarter of fiscal 2018. The 2017 Convertible Notes matured during the first quarter of fiscal 2018, and the Company exercised its call options to neutralize the dilutive effect of the incremental shares from the 2017 Convertible Notes.

Because the number of diluted shares in the above table for the nine months ended December 30, 2017 was calculated based on a weighted-average outstanding basis, it included approximately 2.0 million shares of dilutive impact from the 2017 Convertible Notes through the maturity date and 5.5 million shares of dilutive impact from warrants before the settlement. Such impact will no longer be applicable in future periods.

Outstanding stock options and RSUs under the Company's stock award plans to purchase approximately 0 and 2,700 shares for the third quarter and first nine months of fiscal 2019, respectively, were excluded from the diluted net income per common share calculation by applying the treasury stock method, as their inclusion would have been antidilutive. These options and RSUs could be dilutive in the future if the Company's average share price increases and is greater than the combined exercise prices and the unamortized fair values of these options and RSUs.

Table of Contents

Note 9. Inventories

Inventories are stated at the lower of actual cost (determined using the first-in, first-out method), or market (estimated net realizable value) and are comprised of the following:

(In thousands)	December 29, 2018	March 31, 2018
Raw materials	\$ 30,777	\$ 14,674
Work-in-process	197,791	167,039
Finished goods	54,761	54,364
	\$ 283,329	\$ 236,077

Note 10. Debt and Credit Facility

2019 Notes and 2021 Notes

On March 12, 2014, the Company issued the 2019 Notes and 2021 Notes at a discounted price of 99.477% and 99.281% of par, respectively. Interest on the 2019 Notes and 2021 Notes is payable semi-annually on March 15 and September 15.

The Company received net proceeds of \$990.1 million from issuance of the 2019 Notes and 2021 Notes, after the debt discount and deduction of debt issuance costs. The debt discounts and issuance costs are amortized to interest expense over the terms of the 2019 Notes and 2021 Notes. As of December 29, 2018, the remaining term of the 2019 Notes and 2021 Notes are 0.2 years and 2.2 years respectively.

The following table summarizes the carrying value of the 2019 Notes and 2021 Notes as of December 29, 2018 and March 31, 2018:

(In thousands)	December 29, 2018	March 31, 2018
Principal amount of the 2019 Notes	\$ 500,000	\$ 500,000
Unamortized discount of the 2019 Notes	(92)	(501)
Unamortized debt issuance costs associated with 2019 Notes	(57)	(313)
Carrying value of the 2019 Notes	499,851	499,186
Principal amount of the 2021 Notes	500,000	500,000
Unamortized discount of the 2021 Notes	(1,196)	(1,593)
Unamortized debt issuance costs associated with 2021 Notes	(529)	(711)
Carrying value of the 2021 Notes	498,275	497,696
Total carrying value	\$ 998,126	\$ 996,882

Interest expense related to the 2019 Notes and 2021 Notes was included in interest and other income (expense), net on the condensed consolidated statements of income as follows:

(In thousands)	Three Months Ended December 29, 2018		Nine Months Ended December 29, 2018	
	2018	2017	2018	2017
Contractual coupon interest	\$6,406	\$ 6,406	\$19,219	\$ 19,219
Amortization of debt issuance costs	146	146	439	439

Edgar Filing: XILINX INC - Form 10-Q

Amortization of debt discount, net	272	265	806	785
Total interest expense related to the 2019 Notes and 2021 Notes	\$6,824	\$ 6,817	\$20,464	\$ 20,443

2024 Notes

Table of Contents

On May 30, 2017, the Company issued the \$750.0 million principal amount of 2.950% senior notes due June 1, 2024 (2024 Notes) at a discounted price of 99.887% of par. Interest on the 2024 Notes is payable semi-annually on June 1 and December 1.

The Company received \$745.2 million from the issuance of the 2024 Notes, after the debt discount and deduction of debt issuance costs. The debt discounts and issuance costs are amortized to interest expense over the term of the 2024 Notes. As of December 29, 2018, the remaining term of the 2024 Notes is approximately 5.5 years.

In relation to the issuance of the 2024 Notes, the Company entered into interest rate swap contracts with certain independent financial institutions, whereby the Company pays on a semi-annual basis, a variable interest rate equal to the three-month London Interbank Offered Rate (LIBOR) plus 91.43 bps, and receives on a semi-annual basis, interest income at a fixed interest rate of 2.950%. The Company incurred a net interest expense of \$939 thousand and \$2.4 million for the three and nine months ended December 29, 2018, respectively, from the interest rate swap contracts, which was included in interest and other income (expense), net on the condensed consolidated statements of income. Net interest income of \$1.3 million and \$3.4 million was earned on the contracts for the three and nine months ended December 30, 2017, respectively. As of December 29, 2018, the fair value of the interest rate swap contracts was \$23.1 million, which was recorded in other long-term liabilities.

The following table summarizes the carrying value of the 2024 Notes as of December 29, 2018 and March 31, 2018:

(In thousands)	December 29, 2018	March 31, 2018
Principal amount of the 2024 Notes	\$750,000	\$750,000
Unamortized discount of the 2024 Notes	(671)	(755)
Unamortized debt issuance costs associated with 2024 Notes	(3,074)	(3,500)
Carrying Value of the 2024 Notes	\$746,255	\$745,745
Fair value hedge adjustment — interest rate swap contracts	(23,092)	(29,001)
Net carrying value of the 2024 Notes	\$723,163	\$716,744

Interest expense related to the 2024 Notes was included in interest and other income (expense), net on the condensed consolidated statements of income as follows:

(In thousands)	Three Months Ended		Nine Months Ended	
	December 29, 2018	December 30, 2017	December 29, 2018	December 30, 2017
Contractual coupon interest (including interest rate swap, net)	\$6,470	\$ 4,238	\$19,026	\$ 9,604
Amortization of debt issuance costs	142	142	426	331
Amortization of debt discount, net	28	27	84	65
Total interest expense related to the 2024 Notes	\$6,640	\$ 4,407	\$19,536	\$10,000

Revolving Credit Facility

On December 7, 2016, the Company entered into a \$400.0 million senior unsecured revolving credit facility that, upon certain conditions, may be extended by an additional \$150.0 million, with a syndicate of banks (expiring in December 2021). Borrowings under the credit facility will bear interest at a benchmark rate plus an applicable margin based upon the Company's credit rating. In connection with the credit facility, the Company is required to maintain certain financial and nonfinancial covenants. As of December 29, 2018, the Company had made no borrowings under this

credit facility and was not in violation of any of the covenants.

Note 11. Common Stock Repurchase Program

The Board of Directors (Board) has approved stock repurchase programs enabling the Company to repurchase its common stock in the open market or through negotiated transactions with independent financial institutions. On May 16, 2016, the Board authorized the repurchase of up to \$1.00 billion of the Company's common stock and debentures (2016 Repurchase Program). The 2016 Repurchase Program has no stated expiration date. On May 16, 2018, the Board authorized the 2018 Repurchase Program to repurchase the Company's common stock and debentures up to \$500.0 million (2018 Repurchase Program).

Table of Contents

Through December 29, 2018, the Company had used \$953.7 million of the \$1.00 billion authorized under the 2016 Repurchase Program, leaving \$46.3 million available for future repurchases. The Company has not used any of the amount authorized under the 2018 Repurchase Program. The Company's current policy is to retire all repurchased shares, and consequently, no treasury shares were held as of December 29, 2018 and March 31, 2018.

During the first nine months of fiscal 2019, the Company repurchased 2.4 million shares of common stock in the open market with independent financial institutions for a total of \$161.6 million and during the first nine months of fiscal 2018, the Company repurchased 4.7 million shares of common stock in the open market and through accelerated share repurchase agreements with an independent financial institution for a total of \$310.8 million.

Note 12. Interest and Other Income (Expense), Net

The components of interest and other income (expense), net are as follows:

(In thousands)	Three Months Ended December 30, 2018		Nine Months Ended December 30, 2018	
	2018	2017	2018	2017
Interest income	\$21,610	\$ 17,738	\$56,358	\$ 44,984
Interest expense	(13,464)	(11,224)	(40,000)	(34,333)
Other expense, net	(9,476)	(1,045)	(14,127)	(1,513)
Total interest and other income (expense), net	\$(1,330)	\$ 5,469	\$2,231	\$ 9,138

Note 13. Accumulated Other Comprehensive Loss

Comprehensive income (loss) is defined as the change in equity of a company during a period from transactions and other events and circumstances from non-owner sources. The components of the Company's accumulated other comprehensive loss are as follows:

(In thousands)	December 29, March 31, 2018	
	2018	2018
Accumulated unrealized losses on available-for-sale securities, net of tax	\$ (18,382)	\$(29,844)
Accumulated unrealized gains (losses) on hedging transactions, net of tax	(2,884)	1,674
Accumulated cumulative translation adjustment, net of tax	(10,527)	(6,339)
Total accumulated other comprehensive loss	\$ (31,793)	\$(34,509)

The related tax effects of other comprehensive income (loss) were not material for all periods presented.

Note 14. Income Taxes

The Company recorded tax provisions of \$17.2 million and \$63.5 million for the third quarter and the first nine months of fiscal 2019, respectively, representing effective tax rates of 6.7% and 9.0%, respectively. The Company recorded tax provisions of \$179.3 million and \$213.2 million for the third quarter and the first nine months of fiscal 2018, respectively, representing effective tax rates of 107.5% and 40.1%, respectively. The prior year amounts have been restated to reflect the retrospective application of the current authoritative guidance for revenue recognition. Refer to "Note 2. Recent Accounting Changes and Accounting Pronouncements" for additional detail.

On December 22, 2017, the Tax Cuts and Jobs Act (TCJA) was enacted into law. The TCJA provides numerous significant tax law changes including the reduction of the U.S. federal corporate income tax rate from 35% to 21%, the requirement for companies to pay a one-time transition tax on earnings of certain foreign subsidiaries that were

previously tax deferred and the creation of new taxes on certain foreign-sourced earnings. Some provisions of the TCJA began to impact the Company in fiscal 2018, while other provisions impact the Company beginning in fiscal 2019.

Table of Contents

Staff Accounting Bulletin (SAB) 118 allowed companies to record provisional amounts and recognize the effect of the tax law changes during a measurement period. The measurement period ended in the third quarter of fiscal 2019. In the third quarter of fiscal 2019, the Company made an accounting policy election with respect to the TCJA provision designed to tax global intangible low-taxed income (GILTI) of foreign subsidiaries. Rather than treating the impact of taxes due on GILTI inclusions as a current-period expense when incurred, the Company elected to recognize deferred taxes for temporary basis differences that are expected to reverse in future years. As a result, a measurement period adjustment was made to recognize deferred tax assets in the amount of \$6.9 million. This resulted in a reduction of tax expense by the same amount. During the third quarter of fiscal 2019, the Company did not make any other adjustments to the provisional estimates recorded in prior periods. Although the measurement period has closed, further technical guidance related to the TCJA, including final regulations on a broad range of topics, is expected to be issued. In accordance with Accounting Standards Codification (ASC) 740, the Company will recognize any effects of the guidance in the period that such guidance is issued.

The difference between the U.S. federal statutory tax rate of 21% and the Company's effective tax rate in the third quarter and the first nine months of fiscal 2019 was primarily due to the favorable impact of income earned in lower tax rate jurisdictions, which was partially offset by the new tax on GILTI. The difference between the blended U.S. federal statutory tax rate of 31.5% and the Company's effective tax rate in the third quarter and the first nine months of fiscal 2018 was primarily due to the one-time transition tax net of the reversal of the related deferred tax liabilities.

The Company's total gross unrecognized tax benefits for the third quarter and the first nine months of fiscal 2019, determined in accordance with FASB authoritative guidance for measuring uncertain tax positions, increased by an immaterial amount to \$126.7 million. The total amount of unrecognized tax benefits that, if realized in a future period, would favorably affect the effective tax rate was \$16.6 million as of December 29, 2018. Another \$85.5 million would increase additional paid-in capital. The \$85.5 million relates to an additional deduction claimed on federal and state amended tax returns for fiscal 2014 for repurchase premium paid in that year in connection with the early redemption of the Company's 3.125% Junior Convertible debenture due March 15, 2037. It is reasonably possible that changes to the Company's unrecognized tax benefits could be significant in the next twelve months due to tax audit settlements and lapses of statutes of limitation. As a result of uncertainties regarding tax audit settlements and their possible outcomes, an estimate of the range of increase or decrease that could occur in the next twelve months cannot be made.

The Company's policy is to include interest and penalties related to income tax liabilities within the provision for income taxes on the condensed consolidated statements of income. The balance of accrued interest and penalties recorded in the condensed consolidated balance sheets and the amounts of interest and penalties included in the Company's provision for income taxes were not material for all periods presented.

The statutes of limitations have closed for U.S. federal income tax purposes for years through fiscal 2014, for U.S. state income tax purposes for years through fiscal 2010, and for Ireland income tax purposes for years through fiscal 2013.

Note 15. Commitments

Xilinx leases some of its facilities and office buildings under non-cancelable operating leases that expire at various dates through April 2029. Additionally, Xilinx entered into a land lease in conjunction with the Company's building in Singapore, which will expire in November 2035 and the lease cost was settled in an up-front payment in June 2006. Some of the operating leases for facilities and office buildings require payment of operating costs, including property taxes, repairs, maintenance and insurance. Most of the Company's leases contain renewal options for varying terms. Xilinx also leases cars under non-cancelable operating leases that expire at various dates through May 2022. Approximate future minimum lease payments under non-cancelable operating leases are as follows:

Fiscal	(In thousands)
2019 (remaining three months)	\$ 2,343
2020	10,845
2021	7,968
2022	6,628
2023	5,352
Thereafter	35,117
Total	\$ 68,253

Table of Contents

Aggregate future rental income to be received, which includes rents from both owned and leased property, totaled \$10.0 million as of December 29, 2018. Rent expense, net of rental income, under all operating leases was \$1.3 million and \$3.1 million for the three and nine months ended December 29, 2018, respectively. Rent expense, net of rental income, under all operating leases was \$900 thousand and \$3.0 million for the three and nine months ended December 30, 2017, respectively. Rental income was not material for the third quarter and the first nine months of fiscal 2019 or 2018.

Other commitments as of December 29, 2018 totaled \$213.3 million and consisted of purchases of inventory and other non-cancelable purchase obligations related to subcontractors that manufacture silicon wafers and provide assembly and some test services. The Company expects to receive and pay for these materials and services in the next three to six months, as the products meet delivery and quality specifications. Additionally, as of December 29, 2018, the Company also had \$10.4 million of non-cancelable license obligations to providers of electronic design automation software and hardware/software maintenance, \$13.1 million related to renovation of two of its properties and \$34.1 million commitments primarily related to open purchase orders from ordinary operations. These commitments expire at various dates through December 2022.

Note 16. Product Warranty and Indemnification

The Company generally sells products with a limited warranty for product quality. The Company provides an accrual for known product issues if a loss is probable and can be reasonably estimated. As of the end of the third quarter of fiscal 2019 and the end of fiscal 2018, the accrual balances of the product warranty liability were immaterial.

The Company offers, subject to certain terms and conditions, to indemnify customers and distributors for costs and damages awarded against these parties in the event the Company's hardware products are found to infringe third-party intellectual property rights, including patents, copyrights or trademarks, and to compensate certain customers for limited specified costs they actually incur in the event the Company's hardware products experience epidemic failure. To a lesser extent, the Company may from time-to-time offer limited indemnification with respect to its software products. The terms and conditions of these indemnity obligations are limited by contract, which obligations are typically perpetual from the effective date of the agreement. The Company has historically received only a limited number of requests for indemnification under these provisions and has not made any significant payments pursuant to these provisions. The Company cannot estimate the maximum amount of potential future payments, if any, that the Company may be required to make as a result of these obligations due to the limited history of indemnification claims and the unique facts and circumstances that are likely to be involved in each particular claim and indemnification provision. However, there can be no assurances that the Company will not incur any financial liabilities in the future as a result of these obligations.

Note 17. Contingencies

Patent Litigation

On February 1, 2017, a patent infringement lawsuit was filed by Godo Kaisha IP Bridge 1 (IP Bridge) against the Company in the U.S. District Court for the Eastern District of Texas (Godo Kaisha IP Bridge 1 v. Xilinx, Inc., Case. No. 2:17-cv-00100). The lawsuit pertains to two patents and IP Bridge seeks unspecified damages, interest, attorneys' fees, costs, and a permanent injunction or an on-going royalty. On September 14, 2017, the court granted the Company's motion to transfer venue to the U.S. District Court for the Northern District of California. On December 21, 2018, the parties reached an agreement to settle the lawsuit, pursuant to which the parties entered into a patent license agreement dated as of the same date. The patent license agreement does not have a material impact on the Company's financial position or results of operations.

On March 17, 2017, a patent infringement lawsuit was filed by Anza Technology, Inc. (Anza) against the Company in the U.S. District Court for the District of Colorado (Anza Technology, Inc. v. Xilinx, Inc., Case No. 1:17-cv-00687). The lawsuit pertains to three patents and Anza seeks unspecified damages, attorney fees, interest, costs, and expenses. On October 27, 2017, the court granted the Company's motion to transfer venue to the U.S. District Court for the Northern District of California. The parties reached an agreement to settle the lawsuit and it was dismissed with prejudice on July 23, 2018. The amount of the settlement did not have a material impact on the Company's financial position or results of operations.

The Company intends to continue to protect and defend its IP vigorously.

Other Matters

On June 11, 2015, John P. Neblett, as Chapter 7 Trustee of Valley Forge Composite Technologies, Inc., filed a complaint against Xilinx and others in the U.S. Bankruptcy Court for the Middle District of Pennsylvania (Bankruptcy No. 1:13-bk-05253-JJT). The complaint alleges causes of actions against Xilinx for negligence and civil conspiracy relating to alleged violations of U.S. export

Table of Contents

laws. It seeks at least \$50.0 million in damages, together with punitive damages, from the defendants. On September 21, 2015, the action was withdrawn from the U.S. Bankruptcy Court for the Middle District of Pennsylvania and transferred to the U.S. District Court for the Eastern District of Kentucky. On November 2, 2015, Xilinx, along with other defendants, filed a motion to dismiss the complaint. On November 3, 2015, Xilinx filed a motion for sanctions pursuant to Federal Rule of Civil Procedure 11. On June 27, 2016, the Court denied both motions. On September 11, 2017, Xilinx, along with other defendants, filed motions for summary judgment seeking to dispose of all claims against them. On July 3, 2018, the Court granted both of Xilinx's Motions for Summary Judgment, disposing of all claims asserted against Xilinx. On August 1, 2018, the Trustee filed a Notice of Appeal. On August 9, 2018, the Court of Appeals for the Sixth Circuit issued an Order to Show Cause requesting that the appellant address a possible jurisdictional defect. On August 29, 2018, the appellant responded to the Order to Show Cause. On September 10, 2018, the appellees, including Xilinx, filed a joint reply. On January 7, 2019, the Court of Appeals issued an order dismissing the appeal for lack of jurisdiction.

From time to time, the Company is involved in various disputes and litigation matters that arise in the ordinary course of its business. These include disputes and lawsuits related to intellectual property, mergers and acquisitions, licensing, contract law, tax, regulatory, distribution arrangements, employee relations and other matters. Periodically, the Company reviews the status of each matter and assesses its potential financial exposure. If the potential loss from any claim or legal proceeding is considered probable and a range of possible losses can be estimated, the Company accrues a liability for the estimated loss. Legal proceedings are subject to uncertainties, and the outcomes are difficult to predict. Because of such uncertainties, accruals are based only on the best information available at the time. As additional information becomes available, the Company continues to reassess the potential liability related to pending claims and litigation and may revise estimates.

Table of Contents

Note 18. Goodwill and Acquisition-Related Intangibles

As of December 29, 2018 and March 31, 2018, the gross and net amounts of goodwill and of acquisition-related intangibles for all acquisitions were as follows:

(In thousands)	December 29, 2018	March 31, 2018	Weighted-Average Amortization Life
Goodwill	\$ 340,719	\$ 162,421	
Core technology, gross	107,193	82,480	
Less accumulated amortization	(81,099)	(78,562)	
Core technology, net	26,094	3,918	5.0 years
Other intangibles, gross	51,016	46,966	3.0 years
Less accumulated amortization	(47,288)	(46,761)	
In-process research and development (not subject to amortization)	52,710	—	N/A
Other intangibles, net	56,438	205	
Total acquisition-related intangibles, gross	210,919	129,446	
Less accumulated amortization	(128,387)	(125,323)	
Total acquisition-related intangibles, net	\$ 82,532	\$ 4,123	

Amortization expense for acquisition-related intangibles for the three and nine months ended December 29, 2018 was \$1.9 million and \$3.1 million, respectively. Amortization expense for acquisition-related intangibles for the three and nine months ended December 30, 2017 was \$353 thousand and \$1.6 million, respectively.

During the second quarter of fiscal 2019, the Company recorded \$178.3 million of goodwill and \$81.5 million of intangibles attributable to the acquisition of Deephi Technology Co., Ltd (Deephi Tech). See "Note 19. Business Combination" to our condensed consolidated financial statements.

Based on the carrying value of acquisition-related intangibles recorded as of December 29, 2018, assuming no subsequent acquisition or impairment of the underlying assets, the annual amortization expense for acquisition-related intangibles is expected to be as follows:

Fiscal	(In thousands)
2019 (remaining three months)	\$ 1,866
2020	7,464
2021	7,442
2022	6,089
Thereafter	6,961
Total	\$ 29,822

In-process research and development are not subject to amortization prior to the completion of the projects and therefore the balance is excluded from the above annual amortization expense schedule.

Note 19. Business Combination

During the second quarter of fiscal 2019, the Company completed the acquisition of Deephi Tech by acquiring all its outstanding ordinary shares. Deephi Tech was a privately held start-up with industry-leading capabilities in machine learning and focusing on system-level neural network optimization. This acquisition strengthens the Company's

capabilities in artificial intelligence applications.

Total purchase consideration to acquire Deephi Tech was \$251.9 million, including \$11.5 million of fair value from the Company's preexisting investment in Deephi Tech, \$200 thousand of unsettled payments to Deephi Tech equity holders and \$6.3 million of cash acquired. The Company incurred \$3.4 million of acquisition related costs, which was recorded in the operating expenses of condensed consolidated statements of income. Additionally, the Company was required to assess the fair value of its preexisting

Table of Contents

investment in Deephi Tech and recorded \$6.5 million gain in its condensed consolidated statements of income as part of interest and other income, net.

Subsequent to the acquisition, the financial results for Deephi Tech are included in the Company's condensed consolidated financial statements. Prior to the acquisition, the financial results for Deephi Tech were not significant for pro forma financial information.

The company allocated the purchase price to tangible and identified intangible assets acquired and liabilities assumed based on estimated fair values. As additional information becomes available, the company may further update the preliminary purchase price allocation during the remainder of the measurement period (up to one year from the acquisition date). The preliminary fair values of the assets acquired and liabilities assumed in the acquisition of Deephi Tech, by major class, were recognized as follows:

	Amount (In thousands)
Cash and cash equivalents	\$ 6,263
Tangible assets	2,076
Identifiable intangible assets	81,530
Goodwill	178,297
Deferred tax liabilities	(13,702)
Other liabilities	(2,554)
Total	\$ 251,910

The goodwill of \$178.3 million arising from the acquisition is attributed to the expected synergies and other benefits that will be generated from the combination of the Company and Deephi Tech. The goodwill recognized is expected to be deductible for tax purposes.

The identified intangible assets assumed in the acquisition of Deephi Tech were recognized as follows based upon the preliminary fair values as of the closing date of the acquisition.

	Amount (In thousands)	Amortization Life
Trade Names & Trademarks	\$ 1,020	3.0 years
Developed Technology	24,770	5.0 years
Customer Relationships	3,030	3.0 years
In-Process Research and Development	52,710	N/A
Total identifiable intangible assets	\$ 81,530	

Note 20. Subsequent Events

On January 22, 2019, the Company's Board of Directors declared a cash dividend of \$0.36 per common share for the fourth quarter of fiscal 2019. The dividend is payable on February 21, 2019 to stockholders of record on February 6, 2019.

Table of Contents

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The statements in this Management's Discussion and Analysis that are forward-looking, within the meaning of the Private Securities Litigation Reform Act of 1995, 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 "Risk Factors" and elsewhere in this document. Often, forward-looking statements can be identified by the use of forward-looking words, such as "may," "will," "could," "should," "expect," "believe," "anticipate," "estimate," "continue," "plan," "intend," "project" and other similar terminology, or the negative of such terms. We disclaim any responsibility to update or revise any forward-looking statement provided in this Management's Discussion and Analysis for any reason.

Critical Accounting Policies and Estimates

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 condensed consolidated financial statements. The SEC has defined critical accounting policies as those that are most important to the portrayal of our financial condition and results of operations 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 critical accounting policies include: valuation of marketable securities, which impacts losses on debt and equity securities when we record impairments; revenue recognition, which impacts the recording of revenues; the assessment of impairment of long-lived assets, which impacts their valuation; the assessment of the recoverability of goodwill, which impacts goodwill impairment; and valuation of inventories, which impacts cost of revenues and gross margin. Our critical accounting policies also include: accounting for income taxes, which impacts the provision or benefit recognized for income taxes, as well as the valuation of deferred tax assets recorded on our condensed consolidated balance sheet; and valuation and recognition of stock-based compensation, which impacts gross margin, research and development (R&D) expenses, and selling, general and administrative (SG&A) expenses. For more discussion please refer to "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" included in our Form 10-K for the year ended March 31, 2018 filed with the SEC, and to "Note 2. Recent Accounting Changes and Accounting Pronouncements" to our condensed consolidated financial statements, included in Part I. "Financial Information."

Due to the acquisition of Deepphi Tech, we included business combinations in our critical accounting policies. We use the acquisition method of accounting and allocate the fair value of purchase consideration to the assets acquired and liabilities assumed in the acquiree based on their respective fair values as of the acquisition date. The excess of the fair value of purchase consideration over the fair value of these assets acquired and liabilities assumed is recorded as goodwill. When determining the fair values of assets required and liabilities acquired, management makes significant estimates and assumptions, especially with respect to intangible assets. Critical estimates in valuing intangible assets include, but are not limited to, expected future cash flows, which includes consideration of future growth and margins, future changes in technology, expected cost and time to develop in-process research and development, brand awareness and discount rates. Fair value estimates are based on the assumptions management believes a market participant would use in pricing the asset or liability.

We also have other key accounting policies that are not as subjective, and therefore, their application would not require us to make estimates or judgments that are as difficult, but which nevertheless could significantly affect our financial reporting.

Results of Operations: third quarter and first nine months of fiscal 2019 compared to the third quarter and first nine months of fiscal 2018

The following table sets forth statement of income data as a percentage of net revenues for the periods indicated:

27

Table of Contents

	Three Months Ended			Nine Months Ended		
	December 29, 2018		December 30, 2017	December 29, 2018		December 30, 2017
	2018	2017	%	2018	2017	%
Net revenues	100.0	100.0	%	100.0	100.0	%
Cost of revenues	31.0	29.7		30.8	30.3	
Gross margin	69.0	70.3		69.2	69.7	
Operating expenses:						
Research and development	23.7	27.8		24.4	26.1	
Selling, general and administrative	12.9	15.4		13.0	14.9	
Amortization of acquisition-related intangibles	0.2	0.1		0.1	0.1	
Total operating expenses	36.8	43.3		37.5	41.1	
Operating income	32.2	27.0		31.7	28.6	
Interest and other income (expense), net	(0.1)	0.9		0.1	0.5	
Income before income taxes	32.1	27.9		31.8	29.1	
Provision for income taxes	2.2	30.0		2.9	11.7	
Net income (loss)	29.9	% (2.1)	%	28.9	% 17.4	%

Net Revenues

We sell our products to global manufacturers of electronic products in various end markets. The vast majority of our net revenues is generated by sales of our semiconductor products, but we also generate sales from support products. We classify our product offerings into two categories: Advanced Products and Core Products:

Advanced Products include our most recent product offerings and consist of the Alveo branded boards, UltraScale+, UltraScale and 7-series product families.

Core Products consist of all other product families.

These product categories are modified on a periodic basis to better reflect the maturity of the products and advances in technology. The most recent modification was made on April 3, 2016, which was the beginning of our fiscal 2017, whereby we reclassified our product categories to be consistent with how these categories are analyzed and reviewed internally.

No end customer accounted for more than 10% of our net revenues for the third quarter and first nine months of fiscal 2019.

Net Revenues by Product

Net revenues by product categories for the third quarter and first nine months of fiscal 2019 and 2018 were as follows:

	Three Months Ended			Nine Months Ended		
	December 29, 2018		December 30, 2017	December 29, 2018		December 30, 2017
(In millions)	2018	Change	2017	2018	Change	2017
Advanced Products	\$524.2	51	\$ 346.3	\$1,387.8	39	\$ 999.6
Core Products	275.9	9	252.3	842.9	2	829.2
Total net revenues	\$800.1	34	\$ 598.6	\$2,230.7	22	\$ 1,828.8

Net revenues from Advanced Products increased in the third quarter and the first nine months of fiscal 2019 compared to the comparable prior year periods. The increases were a result of sales growth from all product families, with the most significant growth coming from our 16nm and 20nm product families. We expect sales of Advanced Products to continue to grow as more customer programs enter volume production with both our 16nm and our new Alveo branded board products.

Net revenues from Core Products also increased in the third quarter and the first nine months of fiscal 2019 from the comparable prior year periods. The increases were largely due to higher sales from our Spartan 6 and Virtex 2 product families, which more

Table of Contents

than offset the sales decreases from Virtex 6 and Spartan 3 product families. Core Products are relatively mature products and, as a result, their sales are expected to decline over time.

Net Revenues by End Markets

Our end market revenue data is derived from our understanding of our end customers' primary markets, which is based on reports provided by distributors and our internal records. To provide additional visibility, starting April 1, 2018 we classify our end markets into businesses with similar market drivers: Data Center and Test, Measurement and Emulation (TME); Automotive, Broadcast and Consumer; Communications; and Industrial, Aerospace & Defense. Additionally, we classify revenue recognized from shipments to distributors but not yet subsequently sold to the end markets, and not identifiable to an end market, as Channel revenue. The Channel revenue represents the difference between the shipments to distributors and what the distributors subsequently sold to the end customers within the given period. The percentage change calculation in the table below represents the year-to-year dollar change in each end market.

Net revenues by end markets for the third quarter and the first nine months of fiscal 2019 and 2018 were as follows:

(% of total net revenues)	Three Months Ended				Nine Months Ended			
	December 30, 2018		December 30, 2017		December 29, 2018		December 30, 2017	
	% Change in Dollars		% Change in Dollars		% Change in Dollars		% Change in Dollars	
Data Center and TME	21	% 14	25	%	20	% 18	21	%
Automotive, Broadcast and Consumer	15	20	17		16	16	17	
Communications	35	41	33		34	21	34	
Industrial, Aerospace & Defense	27	17	31		28	14	30	
Channel	2	nm*	(6	)	2	nm*	(2	)
Total net revenues	100	% 34	100	%	100	% 22	100	%

*not meaningful

Net revenues from Data Center and TME increased, in terms of absolute dollar, in the third quarter and the first nine months of fiscal 2019 from the comparable prior year periods. The increases were primarily due to higher sales from Data Center, which more than offset the decreases in sales from TME.

Net revenues from Automotive, Broadcast and Consumer increased, in terms of absolute dollar, in the third quarter and the first nine months of fiscal 2019 from the comparable prior year periods. The increases were due to higher sales from all sub-segments, with particular strength coming from Automotive and Audio, Video and Broadcast.

Net revenues from Communications increased, in terms of absolute dollar, in the third quarter and the first nine months of fiscal 2019 from the comparable prior year periods. The increases were primarily due to higher sales from all sub-segments, with particular strength coming from Wireless business driven by both the continued deployment of 4G Long Term Evolution (LTE) networks and the ramping up global deployment of 5G wireless networks.

Net revenues from Industrial, Aerospace & Defense increased, in terms of absolute dollar, in the third quarter and the first nine months of fiscal 2019 from the comparable prior year period. The increases were driven by higher sales from each of the sub-segments, with particular strength coming from Aerospace & Defense in the third quarter of fiscal 2019 and from Industrial, Scientific and Medical in the first nine months of fiscal 2019.

Channel revenue was a positive amount in the third quarter and the first nine months of fiscal 2019, because shipments to distributors exceeded what the distributors subsequently shipped to their customers during such periods. In the second half of fiscal 2018, we partnered with our distributors to reduce overall distributor inventory and improve the stability of inventory balances. Beginning in fiscal 2019, our distributors restocked their inventory to support mutual growth and customer service objectives. We expect channel revenue to be a small portion of overall revenue over time as stocking levels have increased and are approximating previous levels.

Net Revenues by Geography

Table of Contents

Geographic revenue information reflects the geographic location of the distributors, original equipment manufacturers (OEMs) or contract manufacturers who purchased our products. This may differ from the geographic location of the end customers. Net revenues by geography for the third quarter and the first nine months of fiscal 2019 and 2018 were as follows:

(In millions)	Three Months Ended			Nine Months Ended		
	December 29, 2018	Change	December 30, 2017	December 29, 2018	Change	December 30, 2017
North America	\$227.2	24	\$ 183.0	\$628.6	14	\$ 553.5
Asia Pacific	366.8	47	249.8	997.5	31	759.0
Europe	145.9	24	118.0	431.3	19	361.5
Japan	60.2	26	47.8	173.3	12	154.8
Total net revenues	\$800.1	34	\$ 598.6	\$2,230.7	22	\$ 1,828.8

Net revenues in North America increased in the third quarter and the first nine months of fiscal 2019 from the comparable prior year periods. The increases were primarily due to higher sales from Wireline and Data Center, which more than offset the decline in revenue from TME and Aerospace and Defense in both periods.

Net revenues in Asia Pacific increased in the third quarter and the first nine months of fiscal 2019 from the comparable prior year periods. The increases were due to a broad-based increase in sales from most of our end markets, in particular the Wireless business driven by the continued deployment of 4G LTE networks and the ramping up deployment of 5G wireless networks, and to a lesser extent from Data Center.

Net revenues in Europe increased in the third quarter and the first nine months of fiscal 2019 from the comparable prior year periods. The increases were primarily due to higher sales from TME and Automotive.

Net revenues in Japan increased in the third quarter and the first nine months of fiscal 2019 from the comparable prior year periods. Revenue from TME, Consumer and Data Center increased for both periods, but the increases were partially offset by lower sales from Wireless.

Gross Margin

	Three Months Ended			Nine Months Ended			
(In millions)	December 29, 2018	Change	December 30, 2017	December 29, 2018	Change	December 30, 2017	
Gross margin	\$552.2	31 %	\$ 420.6	\$1,544.3	21 %	\$ 1,274.4	
Percentage of net revenues	69.0	%	70.3	69.2	%	69.7	%

Gross margin was lower by 1.3 and 0.5 percentage points in the third quarter and the first nine months of fiscal 2019 from the comparable prior year periods, respectively. The decreases were driven primarily by changes in the end-market mix, as revenue from Wireless, which has a relatively lower margin, increased more significantly as compared to the increases in the other end-markets.

Gross margin may be affected in the future due to multiple factors, including but not limited to those set forth in Item 1A. "Risk Factors," included in Part II of this Form 10-Q, shifts in the mix of customers and products, competitive-pricing pressure, manufacturing-yield issues and wafer pricing. We expect to mitigate any adverse impacts from these factors by continuing to improve yields on our Advanced Products, improve manufacturing efficiencies, and improve average selling price management. The average selling prices of our products generally decline as the products mature. We seek to offset the decrease in selling prices through yield improvement,

manufacturing cost reductions and increased unit sales. We also continue to develop higher value products or product features that increase, or slow the decline of, the average selling price of our products. However, there is no guarantee that our ongoing efforts will be successful or that they will keep pace with the decline in selling prices of our products, which could ultimately lead to a decline in revenues and have a negative effect on our gross margins.

Research and Development

30

Table of Contents

(In millions)	Three Months Ended			Nine Months Ended		
	December 29, 2018	Change	December 30, 2017	December 29, 2018	Change	December 30, 2017
Research and development	\$ 189.3	14 %	\$ 166.2	\$ 543.5	14 %	\$ 477.3
Percentage of net revenues	24 %		28 %	24 %		26 %

R&D spending increased by \$23.1 million and \$66.2 million for the third quarter and the first nine months of fiscal 2019 from the comparable prior year periods, respectively. The increases were primarily attributable to higher overall headcount to support our continuing product development, and higher employee compensation related to variable spending, such as incentive compensation expenses associated with higher revenue and operating margin.

We plan to continue to selectively invest in R&D efforts in areas such as new products and more advanced process development, IP cores and software development environments. We expect R&D expenses will increase over time as we continue to grow headcount and will have increased mask and wafer expenses from our next generation products. We may also consider acquisitions to complement our strategy for technology leadership and engineering resources in critical areas.

Selling, General and Administrative

(In millions)	Three Months Ended			Nine Months Ended		
	December 29, 2018	Change	December 30, 2017	December 29, 2018	Change	December 30, 2017
Selling, general and administrative	\$ 103.0	11 %	\$ 92.8	\$ 291.3	7 %	\$ 273.0
Percentage of net revenues	13 %		15 %	13 %		15 %

SG&A expenses increased by \$10.2 million and \$18.3 million for the third quarter and the first nine months of fiscal 2019 from the comparable prior year periods, respectively, as we incurred higher variable spending associated with higher revenue and operating margin such as sales commission and incentive compensation expense, as well as higher costs related to merger and acquisition activities.

Amortization of Acquisition-Related Intangibles

(In millions)	Three Months Ended			Nine Months Ended		
	December 29, 2018	Change	December 30, 2017	December 29, 2018	Change	December 30, 2017
Amortization of acquisition-related intangibles	\$ 1.9	429 %	\$ 0.4	\$ 3.1	95 %	\$ 1.6
Percentage of net revenues	— %		— %	— %		— %

Amortization expense for the third quarter and the first nine months of fiscal 2019 increased from the comparable prior year periods. The increase was primarily due to additional amortization expense from intangible assets acquired through the Deephi Tech acquisition in the second quarter of fiscal 2019.

Stock-Based Compensation

(In millions)	Three Months Ended			Nine Months Ended		
	December 29, 2018	Change	December 30, 2017	December 29, 2018	Change	December 30, 2017
Stock-based compensation included in:						
Cost of revenues	\$ 2.3	8 %	\$ 2.2	\$ 6.7	3 %	\$ 6.5
Research and development	22.4	11	20.2	63.3	10	57.8

Edgar Filing: XILINX INC - Form 10-Q

Selling, general and administrative	13.9 (3)	14.4	39.2 (4)	40.9
	\$38.6 5	\$ 36.8	\$109.2 4	\$ 105.2

Table of Contents

The 5% and 4% increase in stock-based compensation expense for the third quarter and the first nine months of fiscal 2019, respectively, as compared to the prior year periods, were primarily related to higher expenses associated with the recent RSU grants that had higher fair value than in the prior years.

Interest and Other Income (Expense), Net

(In millions)	Three Months Ended			Nine Months Ended		
	December 29, 2018	Change	December 30, 2017	December 29, 2018	Change	December 30, 2017
Interest and other income (expense), net	\$(1.3)	(124)%	\$ 5.5	\$2.2	(76)%	\$ 9.1
Percentage of net revenues	—	%	1	%	—	%

Our interest and other income (expense), net, was a net expense of \$1.3 million for the third quarter of fiscal 2019 as compared to a net income in the comparable prior year period, a decrease of \$6.8 million. For the first nine months of fiscal 2019, our net interest and other income decreased by \$6.9 million as compared to the same prior year period. These decreases were primarily due to the losses from investments recorded during the third quarter of fiscal 2019.

Provision for Income Taxes

(In millions)	Three Months Ended			Nine Months Ended		
	December 29, 2018	Change	December 30, 2017	December 29, 2018	Change	December 30, 2017
Provision for income taxes	\$ 17.2	(90)%	\$ 179.3	\$63.5	(70)%	\$ 213.2
Percentage of net revenues	2	%	30	%	12	%
Effective tax rate	7	%	107	%	40	%

The decrease in the effective tax rates in the third quarter and first nine months of fiscal 2019 from the comparable prior year periods was primarily due to the initial recording of the provisional estimate for the TCJA's one-time transition tax net of the reversal of deferred tax liabilities on unremitted foreign earnings in fiscal 2018, a remeasurement of certain deferred tax assets and liabilities as a result of the reduction in the corporate income tax rate to 21% in fiscal 2018, and a reduction in the U.S. federal statutory tax rate from 31.5% in fiscal 2018 to 21% in fiscal 2019. The decrease in the effective tax rates was partially offset by an increase in the provision for income taxes primarily due to the new tax on GILTI in fiscal 2019.

The difference between the U.S. federal statutory tax rate of 21% and our effective tax rate in the third quarter and the first nine months of fiscal 2019 was primarily due to the favorable impact of income earned in lower tax rate jurisdictions, which was partially offset by the new tax on GILTI. The difference between the blended U.S. federal statutory tax rate of 31.5% and our effective tax rate in the third quarter and the first nine months of fiscal 2018 was primarily due to the one-time transition tax net of the reversal of deferred tax liabilities on unremitted foreign earnings.

On December 22, 2017, the TCJA was enacted into law. The TCJA provides numerous significant tax law changes including the reduction of the U.S. federal corporate income tax rate from 35% to 21%, the requirement for companies to pay a one-time transition tax and the creation of new taxes on certain foreign-sourced earnings. As a fiscal year-end taxpayer, certain provisions of the TCJA began to impact us in our third quarter of fiscal 2018, while other provisions began to impact us in fiscal 2019. The change with the most significant impact to us in fiscal 2019 is the new tax on GILTI.

ASC 740, Income Taxes, requires companies to recognize the effect of the tax law changes in the period of enactment. However, the SEC staff issued SAB 118 which allows companies to record provisional amounts during a

measurement period that is similar to the measurement period used when accounting for business combinations. The FASB allows taxpayers to make an accounting policy election of either (1) treating taxes due on GILTI inclusions as a current-period expense when incurred or (2) recognizing deferred taxes for temporary basis differences that are expected to reverse as GILTI in future years. During the period ended December 29, 2018, the last period covered by SAB 118, we recognized a measurement period adjustment that resulted in a reduction of tax expense of \$6.9 million. The adjustment results from our election to recognize deferred taxes for temporary basis differences on GILTI. See "Note 14. Income Taxes" to our consolidated financial statements included in Item 1. "Financial Statements."

Table of Contents

Financial Condition, Liquidity and Capital Resources

We have historically used a combination of cash flows from operations and equity as well as debt financing to support ongoing business activities, acquire or invest in critical or complementary technologies, purchase facilities and capital equipment, repurchase our common stock and debentures under our repurchase program, pay dividends and finance working capital. Additionally, our investments in debt securities are liquid and available for future business needs.

The combination of cash, cash equivalents and short-term and long-term investments as of December 29, 2018 and March 31, 2018 totaled \$3.55 billion and \$3.55 billion, respectively. As of December 29, 2018, we had cash, cash equivalents and short-term investments of \$3.47 billion and working capital of \$3.22 billion. As of March 31, 2018, cash, cash equivalents and short-term investments were \$3.45 billion and working capital was \$3.24 billion.

As of December 29, 2018, we had \$1.82 billion of cash and cash equivalents and short-term investments held in our non-U.S. jurisdictions. As a result of the TCJA, substantially all of the \$1.82 billion of cash, cash equivalents and short-term investments held by our non-U.S. entities is available for use in the U.S. without incurring additional U.S. federal income taxes.

Operating Activities —During the first nine months of fiscal 2019, our operations generated net positive cash flow of \$803.2 million, which was \$225.5 million higher than the \$577.7 million generated during the first nine months of fiscal 2018. The positive cash flow from operations generated during the first nine months of fiscal 2019 was primarily from net income as adjusted for non-cash related items, increases in accrued liabilities and accounts payable and decreases in accounts receivable and prepaid expenses and other current assets. These items were partially offset by increases in inventories and other assets as well as decrease in income tax payable. Accounts receivable decreased by \$22.9 million and days sales outstanding decreased to 44 days at December 29, 2018 from 56 days at March 31, 2018. We had no collectibility issues and our accounts receivable remained current as of December 29, 2018. We expect our accounts receivable to fluctuate as we partner with our distributors to manage their inventory requirements. Our inventory levels as of December 29, 2018 were \$47.2 million higher at \$283.3 million compared to \$236.1 million at March 31, 2018 to support our revenue growth, while the combined inventory days at Xilinx and distribution decreased slightly to 118 days at December 29, 2018 from 119 days at March 31, 2018.

Investing Activities —Net cash used in investing activities was \$591.5 million during the first nine months of fiscal 2019, as compared to \$318.9 million in the first nine months of fiscal 2018. Net cash used in investing activities during the first nine months of fiscal 2019 consisted primarily of \$233.9 million for Deephi acquisition, \$60.8 million for purchases of property, plant and equipment and other intangibles, \$259.2 million of net purchases of available-for-sale securities and \$37.6 million of other investing activities.

Financing Activities —Net cash used in financing activities was \$461.5 million in the first nine months of fiscal 2019, as compared to \$314.1 million in the first nine months of fiscal 2018. Net cash used in financing activities during the first nine months of fiscal 2019 consisted primarily of \$272.9 million dividend payments to stockholders, \$161.6 million of cash payment to repurchase shares of common stock and \$42.0 million of payment for RSU withholdings. These items were partially offset by \$18.4 million proceeds from issuance of common stock.

Contractual Obligations

We lease some of our facilities, office buildings and land under non-cancelable operating leases that expire at various dates through April 2029. See "Note 15. Commitments" to our condensed consolidated financial statements, included in Part I. "Financial Information," for a schedule of our operating lease commitments as of December 29, 2018 and additional information about operating leases.

Due to the nature of our business, we depend entirely upon subcontractors to manufacture our silicon wafers and provide assembly and some test services. The lengthy subcontractor lead times require us to order the materials and services in advance, and we are obligated to pay for the materials and services when completed. As of December 29, 2018, we had \$213.3 million of outstanding inventory and other non-cancelable purchase obligations to subcontractors. We expect to receive and pay for these materials and services in the next three to six months, as the products meet delivery and quality specifications. As of December 29, 2018, we also had \$10.4 million of non-cancelable license obligations to providers of electronic design automation software and hardware/software, \$13.1 million related to renovation of two of its properties and \$34.1 million of commitments primarily related to open purchase orders from ordinary operations. These commitments expire at various dates through December 2022.

As of December 29, 2018, we had \$489.4 million of liabilities classified as long-term income taxes payable in the condensed consolidated balance sheets. Of the \$489.4 million, \$468.3 million was the estimated long-term portion of the one-time transition tax that resulted from the enactment of the TCJA, which is payable in eight annual installments. The first installment was paid in

Table of Contents

the second quarter of fiscal 2019. The second installment is classified as a current income tax payable. The installment amounts are equal to 8% of the total liability, payable in fiscal 2019 through 2023, 15% in fiscal 2024, 20% in fiscal 2025, and 25% in fiscal 2026. See "Note 14. Income Taxes" to our condensed consolidated financial statements, included in "Part I. Financial Information," for additional information about the one-time transition tax. The remaining \$21.1 million of the long-term income taxes payable is for uncertain tax positions and related interest and penalties. Due to the inherent uncertainty with respect to the timing of future cash outflows associated with such liabilities, we are unable to reliably estimate the timing of cash settlement with the respective taxing authorities.

Off-Balance-Sheet Arrangements

As of December 29, 2018, we did not have any significant off-balance-sheet arrangements, as defined in Item 303(a)(4)(ii) of SEC Regulation S-K.

Liquidity and Capital Resources

Cash generated from operations is used as our primary source of liquidity and capital resources. Our investment portfolio is also available for future cash requirements as is our \$400.0 million revolving credit facility entered into in December 2016 (expiring in December 2021). We are not aware of any lack of access to the revolving credit facility; however, we can provide no assurance that access to the revolving credit facility will not be impacted by adverse conditions in the financial markets. Our revolving credit facility is not reliant upon a single bank. There have been no borrowings to date under our existing revolving credit facility.

We repurchased 2.4 million shares of our common stock for \$161.6 million during the first nine months of fiscal 2019. During the first nine months of fiscal 2018, we repurchased 4.7 million shares of common stock for a total of \$310.8 million. During the first nine months of fiscal 2019, we paid \$272.9 million in cash dividends to stockholders, representing \$0.36 per common share per quarter. During the first nine months of fiscal 2018, we paid \$263.8 million in cash dividends to stockholders, representing \$0.35 per common share per quarter. On January 22, 2019 our Board of Directors declared a cash dividend of \$0.36 per common share for the fourth quarter of fiscal 2019. The dividend is payable on February 21, 2019 to stockholders of record on February 6, 2019. Our common stock and debentures repurchase program and dividend policy could be impacted by, among other items, our views on potential future capital requirements relating to R&D, investments and acquisitions, legal risks, principal and interest payments on our debentures and other strategic investments.

We anticipate that existing sources of liquidity and cash flows from operations will be sufficient to satisfy our cash needs for the foreseeable future. We will continue to evaluate opportunities for investments to obtain additional wafer capacity, to procure additional capital equipment and facilities, to develop new products, and to potentially acquire technologies or businesses that could complement our business. However, the risk factors discussed in Item 1A "Risk Factors" included in Part II, "Other Information" and below could affect our cash positions adversely.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Risk

Our exposure to interest rate risk relates to certain types of investments, which consist of fixed income securities with a fair value of approximately \$3.06 billion as of December 29, 2018, and to our interest rate swap contracts in relation to the issuance of the 2024 Notes (as our interest rate swap contracts carry a variable interest rate based on LIBOR plus a spread). These investments include mortgage-backed securities, asset-backed securities, financial institution

securities, non-financial institution securities, U.S. and foreign government and agency securities, debt mutual funds and commercial mortgage-backed securities. Our primary aim with our investment portfolio is to invest available cash while preserving principal and meeting liquidity needs. In accordance with our investment policy, we place investments with high credit quality issuers and limit the amount of credit exposure to any one issuer based upon the issuer's credit rating. These securities are subject to interest rate risk and will decrease in value if market interest rates increase. A hypothetical 100 basis-point (one percentage point) increase or decrease in interest rates compared to rates at December 29, 2018 would have affected the fair value of our investment portfolio by less than \$33.0 million.

Credit Market Risk

The global credit markets may experience adverse conditions that negatively impact the values of various types of investment and non-investment grade securities. The global credit and capital markets may experience significant volatility and disruption due to instability in the global financial system, uncertainty related to global economic conditions and concerns regarding sovereign financial stability. Therefore, there is a risk that we may incur other-than-temporary impairment charges for certain types of

Table of Contents

investments should credit market conditions deteriorate. See "Note 5. Financial Instruments" to our condensed consolidated financial statements, included in Part 1. "Financial Information."

Foreign Currency Exchange Risk

Sales to all direct OEMs and distributors are denominated in U.S. dollars.

Gains and losses on foreign currency forward contracts that are designated as hedges of anticipated transactions, for which a firm commitment has been attained and the hedged relationship has been effective, are deferred and included in income or expenses in the same period that the underlying transaction is settled. Gains and losses on any instruments not meeting the above criteria are recognized in income or expenses in the condensed consolidated statements of income as they are incurred.

We enter into forward currency exchange contracts to hedge our overseas operating expenses and other liabilities when deemed appropriate. As of December 29, 2018 and March 31, 2018, we had the following outstanding forward currency exchange contracts (in notional amount):

(In millions and U.S. dollars)	December 29, 2018	March 31, 2018
Singapore Dollar	\$ 26.2	\$24.9
Euro	39.1	39.0
Indian Rupee	72.4	62.5
British Pound	10.1	8.1
Japanese Yen	3.8	3.8
Chinese Yuan	32.7	8.3
	\$ 184.3	\$146.6

As part of our strategy to reduce volatility of operating expenses due to foreign exchange rate fluctuations, we employ a hedging program with forward outlook of up to two years for major foreign-currency-denominated operating expenses. The outstanding forward currency exchange contracts expire at various dates through November 2020. The net unrealized losses, which approximate the fair market value of the forward currency exchange contracts, are expected to be realized into net income within the next two years.

Our investments in several of our wholly-owned subsidiaries are recorded in currencies other than the U.S. dollar. As the financial statements of these subsidiaries are translated at each quarter end during consolidation, fluctuations of exchange rates between the foreign currency and the U.S. dollar increase or decrease the value of those investments. These fluctuations are recorded within stockholders' equity as a component of accumulated other comprehensive income (loss). Other monetary foreign-denominated assets and liabilities are revalued monthly with gains and losses on revaluation reflected in net income. A hypothetical 10% favorable or unfavorable change in foreign currency exchange rates at December 29, 2018 would have affected the annualized foreign-currency-denominated operating expenses of our foreign subsidiaries by less than \$14.0 million. In addition, a hypothetical 10% favorable or unfavorable change in foreign currency exchange rates compared to rates at December 29, 2018 would have affected the value of foreign-currency-denominated cash and investments by less than \$7.0 million.

Table of Contents

Item 4. Controls and Procedures

We maintain a system of disclosure controls and procedures designed to ensure that information required to be disclosed in our reports filed or submitted under the U.S. Securities Exchange Act of 1934, as amended (Exchange Act), is recorded, processed, summarized and reported within the time periods specified in the SEC rules and forms. These controls and procedures are also designed to ensure that such information is accumulated and communicated to our management, including the Chief Executive Officer (CEO) and Chief Financial Officer (CFO), as appropriate to allow timely decisions regarding required disclosure. Internal controls are procedures designed to provide reasonable assurance that: transactions are properly authorized; assets are safeguarded against unauthorized or improper use; and transactions are properly recorded and reported, to permit the preparation of our financial statements in conformity with generally accepted accounting principles.

A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple errors or mistakes. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with its policies or procedures. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected. We continuously evaluate our internal controls and make changes to improve them as necessary. Our intent is to maintain our disclosure controls as dynamic systems that change as conditions warrant.

An evaluation was carried out, under the supervision of and with the participation of our management, including our CEO and CFO, of the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this report. Based upon this evaluation, our CEO and CFO have concluded that, as of the end of the period covered by this Form 10-Q, our disclosure controls and procedures are effective to provide reasonable assurance that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC rules and forms, and is accumulated and communicated to our management, including our CEO and CFO, as appropriate to allow timely decisions regarding required disclosure.

There were no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the fiscal quarter ended December 29, 2018 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

See "Note 17. Contingencies" to our condensed consolidated financial statements, included in Item 1. "Financial Statements" for information regarding patent litigation.

Item 1A. Risk Factors

The following risk factors and other information included in this Quarterly Report on Form 10-Q should be carefully considered. The risks and uncertainties described below are not the only risks to the Company. Additional risks and uncertainties not presently known to the Company or that the Company's management currently deems immaterial also may impair its business operations. If any of the risks described below were to occur, our business, financial condition, operating results and cash flows could be materially adversely affected.

Our success depends on our ability to develop and introduce new products and failure to do so would have a material adverse impact on our financial condition and results of operations.

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, power consumption and performance. Consolidation in our industry may increasingly mean that our competitors have greater resources, or other synergies, that provide them with a competitive advantage in those regards. The success of new product introductions is dependent upon several factors, including:

- timely completion of new product designs;
- ability to generate new design opportunities and design wins;
- availability of specialized field application engineering resources supporting demand creation and customer adoption of new products;
- ability to utilize advanced manufacturing process technologies on circuit geometries of 28nm and smaller;
- achieving acceptable yields;
- ability to obtain adequate production capacity from our wafer foundries and assembly and test subcontractors;
- ability to obtain advanced packaging;
- availability of supporting software design tools;
- utilization of predefined IP logic;
- customer acceptance of advanced features in our new products;
- ability of our customers to complete their product designs and bring them to market; and
- market acceptance of our customers' products.

Our product development efforts may not be successful, our new products may not achieve industry acceptance and we may not 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, which is normal for our product life cycles. As a result, we may be increasingly dependent on revenues derived from design wins for our newer products as well as anticipated cost reductions in the manufacture of our current products. We rely primarily on obtaining yield improvements and corresponding cost reductions in the manufacture of existing products, and on introducing new products that 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.

Table of Contents

We rely on independent foundries for the manufacture of all of our products and a manufacturing problem or insufficient foundry capacity could adversely affect our operations.

Most of our wafers are manufactured in Taiwan by Taiwan Semiconductor Manufacturing Company (TSMC) and United Microelectronics Corporation (UMC). In addition, we also have wafers manufactured in South Korea by Samsung Electronics Co., Ltd. Terms with respect to the volume and timing of wafer production and the pricing of wafers produced by the semiconductor foundries are determined through periodic negotiations with these wafer foundries, which usually result in short-term agreements that do not provide for long-term supply or allocation commitments. We are dependent on these foundries to supply the substantial majority of our wafers. We rely on TSMC, UMC and our other foundries to produce wafers with competitive performance attributes. Therefore, the foundries, particularly TSMC who manufactures our newest products, must be able to transition to advanced manufacturing process technologies and increased wafer sizes, produce wafers at acceptable yields and deliver them in a timely manner. Furthermore, we cannot guarantee that the foundries that supply our wafers will offer us competitive pricing terms or other commercial terms important to our business.

We cannot guarantee that our foundries will not experience manufacturing problems, including delays in the realization of advanced manufacturing process technologies or difficulties due to limitations of new and existing process technologies. For example, we may experience supply shortages due to the difficulties foundries may encounter if they must rapidly increase their production capacities from low utilization levels to high utilization levels because of an unexpected increase in demand. Furthermore, we cannot guarantee that the foundries will be able to manufacture sufficient quantities of our products or that they will continue to manufacture a given product for the full life of the product. We could also experience supply shortages due to very strong demand for our products, or a surge in demand for semiconductors in general, which may lead to tightening of foundry capacity across the industry. In addition, weak economic conditions may adversely impact the financial health and viability of the foundries and result in their insolvency or their inability to meet their commitments to us. The insolvency of a foundry or any significant manufacturing problem or insufficient foundry capacity would disrupt our operations and negatively impact our financial condition and results of operations.

Earthquakes and other natural disasters could disrupt our operations and have a material adverse effect on our financial condition and results of operations.

Our worldwide operations could be disrupted by earthquakes or other natural disasters such as typhoons, tsunamis, volcano eruptions, fires or floods, as well as disruptions in access to adequate supplies of electricity, natural gas or water. The independent foundries, upon which we rely to manufacture our products, as well as our California and Singapore facilities, are located in regions that are subject to earthquakes and other natural disasters. TSMC's and UMC's foundries in Taiwan and our assembly and test partners in other regions as well as many of our operations in California are located in areas that have been seismically active in the past and some of these areas have also been affected by other natural disasters such as typhoons. Disruption of operations at these foundries and our facilities could cause delays in manufacturing and shipments of our products, and could have a material adverse effect on our results of operations. Any catastrophic event in these locations would disrupt our operations, and our insurance may not cover losses resulting from such disruptions of our operations, thereby materially adversely affecting our financial condition and results of operations. For example, as a result of the March 2011 earthquake in Japan, production at the Seiko factory at Sakata was halted temporarily, impacting production of some of our older devices. In addition, suppliers of wafers and substrates were forced to halt production temporarily. Furthermore, natural disasters can also indirectly impact us. For example, our customers' supply of other complimentary products may be disrupted by a natural disaster and may cause them to delay orders of our products. More vertically-integrated competitors may be less exposed to some or all of these and other risks.

The semiconductor industry is characterized by cyclical market patterns and a significant industry downturn could adversely affect our operating results.

The semiconductor industry is highly cyclical and our financial performance has been affected by downturns in the industry. Down cycles are generally characterized by price erosion and weaker demand for our products. Weaker demand for our products resulting from economic conditions in the end markets we serve and reduced capital spending by our customers can result, and in the past has resulted, in excess and obsolete inventories and corresponding inventory write-downs. We attempt to identify changes in market conditions as soon as possible; however, the dynamics of the market in which we operate make prediction of and timely reaction to such events difficult. Due to these and other factors, our past results are not reliable predictors of our future results.

Table of Contents

The nature of our business makes our revenues difficult to predict which could have an adverse impact on our business.

In addition to the challenging market conditions we may face, we have limited visibility into the demand for our products, particularly new products, because demand for our products depends upon our products being designed into our end customers' products and those products achieving market acceptance. Due to the complexity of our customers' designs, the design to volume production process for our customers requires a substantial amount of time, frequently longer than a year. In addition, other factors may affect our end customers' demand for our products, including, but not limited to, end customer program delays and the ability of end customers to secure other complementary products. We also are dependent upon "turns," orders received and turned for shipment in the same quarter. Occasionally, market factors may cause demand for our products to increase faster than expected. These factors make it difficult for us to forecast future sales and project quarterly revenues. The difficulty in forecasting future sales impairs our ability to project our inventory requirements, which could result, and in the past has resulted, in inventory write-downs or failure to meet customer product demands in a timely manner. In addition, difficulty in forecasting revenues compromises our ability to provide forward-looking revenue and earnings guidance.

If we are not able to compete successfully in our industry, our financial results and future prospects will be adversely affected.

Our programmable logic devices (PLDs) compete in the integrated circuits (IC) industry, an industry that is intensely competitive, continues to consolidate, and is characterized by rapid technological change, increasing levels of integration, product obsolescence and continuous price erosion. We expect increased competition from our primary PLD competitors, Intel, Lattice and Microsemi, and from new market entrants. In addition, competition from the application specific integrated circuits (ASIC) market and from the application specific standard products (ASSP) market continues. We believe that important competitive factors in the logic IC industry include:

- product pricing;
- time-to-market;
- product performance, reliability, quality, power consumption and density;
- field upgradeability;
- adaptability of products to specific applications;
- ease of use and functionality of software design tools;
- availability and functionality of predefined IP logic;
- inventory and supply chain management;
- access to leading-edge process technology and assembly capacity;
- ability to provide timely customer service and support; and
- access to advanced packaging technology.

Our strategy for expansion in the logic market includes continued introduction of new product architectures that address high-volume, low-cost and low-power applications as well as high-performance, high-density applications. However, we may not be successful in executing this strategy. In addition, we anticipate continued pressure from our customers to reduce prices, which may outpace our ability to lower the cost for established products.

Other competitors include manufacturers of:

- high-density programmable logic products characterized by field programmable gate arrays (FPGA) type architectures;

high-volume and low-cost FPGAs as programmable replacements for ASICs and ASSPs;
ASICs and ASSPs with incremental amounts of embedded programmable logic;
high-speed, low-density complex programmable logic devices;
high-performance digital signal processing devices;
products with analog, mixed signal and digital signal processing capabilities;
products with embedded processors;
products with embedded multi-gigabit transceivers;
discrete general purpose GPUs targeting non-graphics applications; and
other new or emerging programmable logic products.

Several companies have introduced products that compete with ours or have announced their intention to sell PLD products. To the extent that our efforts to compete are not successful, our financial condition and results of operations could be materially adversely affected.

Table of Contents

The benefits of programmable logic have attracted a number of competitors to this segment. We recognize that different applications require different programmable technologies, and we are developing architectures, processes and products to meet these varying customer needs. Recognizing the increasing importance of standard software solutions, we have developed common software design tools that support the full range of our IC products. We believe that automation and ease of design are significant competitive factors in this segment.

We could also face competition from our licensees. In the past we have granted limited rights to other companies with respect to certain aspects of our older technology, and we may do so in the future. Granting such rights may enable these companies to manufacture and market products that may be competitive with some of our older products.

Increased costs of wafers and materials, or shortages in wafers and materials, could adversely impact our gross margins and lead to reduced revenues.

If greater demand for wafers is not offset by an increase in foundry capacity, market demand for wafers or production and assembly materials increases, or if a supplier of our wafers or other materials ceases or suspends operations, our supply of wafers and other materials could become limited. Such shortages raise the likelihood of potential wafer price increases, wafer shortages or shortages in materials at production and test facilities, resulting in potential inability to address customer product demands in a timely manner. For example, in 2011, when certain suppliers located in Japan were forced to temporarily halt production as the result of a natural disaster, this resulted in a tightening of supply for those materials. Such shortages of wafers and materials as well as increases in wafer or materials prices could adversely affect our gross margins and would adversely affect our ability to meet customer demands and lead to reduced revenue.

We depend on distributors, primarily Avnet, to generate a significant portion of our sales and complete order fulfillment.

Avnet's revenue accounted for 42% of our worldwide net revenues in the third quarter of fiscal 2019 and as of December 29, 2018, Avnet accounted for 40% of our total net accounts receivable. Any adverse change to our relationship with Avnet or our remaining distributors could have a material impact on our business. Furthermore, if a key distributor materially defaults on a contract or otherwise fails to perform, our business and financial results would suffer. In addition, we are subject to concentrations of credit risk in our trade accounts receivable, which includes accounts of our distributors. A significant reduction of effort by a distributor to sell our products or a material change in our relationship with one or more distributors may reduce our access to certain end customers and adversely affect our ability to sell our products.

In addition, the financial health of our distributors and our continuing relationships with them are important to our success. Unpredictable economic conditions may adversely impact the financial health of some of these distributors, particularly our smaller distributors. This could increase our credit risk exposure relating to the insolvency of certain distributors, the inability of distributors to obtain credit to finance the purchase of our products, or delayed payment for such purchases. Our business could be harmed if the financial health of these distributors impaired their performance and we were unable to secure alternate distributors.

We are dependent on independent subcontractors for most of our assembly and test services, and unavailability or disruption of these services could negatively impact our financial condition and results of operations.

We are dependent on subcontractors to provide semiconductor assembly, substrate, test and shipment services. Any (i) prolonged inability to obtain wafers with competitive performance and cost attributes, adequate yields or timely

delivery, (ii) disruption in assembly, test or shipment services, (iii) delays in stabilizing manufacturing processes and ramping up volume for new products, (iv) transitions to new service providers, or (v) other circumstance that would require us to seek alternative sources of supply, could delay shipments and have a material adverse effect on our ability to meet customer demands. In addition, unpredictable economic conditions may adversely impact the financial health and viability of these subcontractors and result in their insolvency or their inability to meet their commitments to us. These factors would result in reduced net revenues and could negatively impact our financial condition and results of operations.

Table of Contents

A number of factors, including our inventory strategy, can impact our gross margins.

A number of factors can cause our gross margins to fluctuate, including yield, wafer pricing, product mix, market acceptance of our new products, competitive pricing dynamics, licensing costs, geographic and/or market segment pricing strategies. In addition, forecasting our gross margins is difficult because a significant portion of our business is based on turns within the same quarter.

While our overall inventory levels fluctuate over time, the inventory of newer product lines may be higher than other products due to a planned increase in safety stock in anticipation of future revenue growth. In the event demand does not materialize, we may be subject to incremental obsolescence costs. In addition, future product cost reductions could have impact on our inventory valuation as well as our operating results.

Reductions in the average selling prices of our products could have a negative impact on our gross margins.

The average selling prices of our products generally decline as the products mature. We seek to offset the decrease in selling prices through yield improvement, manufacturing cost reductions and increased unit sales. We also continue to develop higher value products or product features that increase the average selling prices of our products or slow the decline of such prices. However, there is no guarantee that our ongoing efforts will be successful or that they will keep pace with the decline in selling prices of our products, which could ultimately lead to a decline in our revenues and gross margins.

General negative economic conditions and any related deterioration in the global business environment could have a material adverse effect on our business, operating results and financial condition.

If weak economic conditions happen (including as result of a prolonged U.S. government shutdown), there may be a number of negative effects on our business, including customers or potential customers reducing or delaying orders, the insolvency of key suppliers, potentially causing production delays, the inability of customers to obtain credit, and the insolvency of one or more customers. Any of these effects could impact our ability to effectively manage inventory levels and collect receivables and ultimately decrease our net revenues and profitability.

We are subject to the risks associated with conducting business operations outside of the U.S. which could adversely affect our business.

In addition to international sales and support operations and development activities, we purchase our wafers from foreign foundries, have our commercial products assembled, packaged and tested by subcontractors located outside the U.S. and utilize third party warehouse operators to store and manage inventory levels for certain of our products. All of these activities are subject to the uncertainties associated with international business operations, including global laws and regulations, trade barriers, economic sanctions, tax regulations, import and export regulations, duties and tariffs and other trade restrictions, changes in trade policies, anti-corruption laws, foreign governmental regulations, potential vulnerability of and reduced protection for IP, longer receivable collection periods and disruptions or delays in production or shipments, any of which could have a material adverse effect on our business, financial condition and/or operating results. As an example of such uncertainties, in recent years ZTE Corporation (ZTE) has been subject to a number of government restrictions affecting our ability to do business with ZTE; the terms and duration of any such restriction have not been known to us in advance and have been subject to ongoing modifications. Additional factors that could adversely affect us due to our international operations include rising oil prices and increased costs, or limited supply of other natural resources. Moreover, our financial condition and results of operations could be adversely affected in the event of political conflicts, economic crises or changes in international relations affecting countries where our main wafer providers, warehouses, end customers and contract manufacturers

who provide assembly and test services worldwide, are located. For example, the United Kingdom's pending exit from the European Union, commonly referred to as "Brexit", has led to significant instability and uncertainty in such regions, which could have a material adverse effect on our business. In addition, concerns regarding trade relations between the U.S. and China and the recent mutual imposition of significant tariffs on importation of certain product categories could result in general economic downturn or otherwise have a material adverse effect on our business.

Table of Contents

Because of our international business and operations, we are vulnerable to the economic conditions of the countries in which we operate and currency fluctuations could have a material adverse effect on our business and negatively impact our financial condition and results of operations.

In addition to our U.S. operations, we also have significant international operations, including foreign sales offices to support our international customers and distributors, our regional headquarters in Ireland and Singapore and an R&D site in India. Sales and operations outside of the U.S. 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 or by changes in foreign currency exchange rates affecting those countries. We derive more than half of our revenues from international sales, primarily in the Asia Pacific region, Europe and Japan where economic weaknesses have adversely affected our revenues in the past. Sales to all direct OEMs and distributors are denominated in U.S. dollars. While the recent movements of the Euro and Yen exchange rates against the U.S. dollar had no material impact on our business, increased volatility could impact our European and Japanese customers. Currency instability and volatility and disruptions in the credit and capital markets may increase credit risks for some of our customers and may impair our customers' ability to repay existing obligations. For example, the United Kingdom's 2016 referendum vote to approve "Brexit" has resulted in economic uncertainty and currency volatility in the European Union. Increased currency volatility could also positively or negatively impact our foreign-currency-denominated costs, assets and liabilities. In addition, any devaluation of the U.S. dollar relative to other foreign currencies may increase the operating expenses of our foreign subsidiaries adversely affecting our results of operations. Furthermore, because we are increasingly dependent on the global economy, instability in worldwide economic environments occasioned, for example, directly or indirectly by political instability (such as due to Brexit), terrorist activity, U.S. or other military actions, changes to U.S. domestic and foreign policy and international sanctions or other diplomatic actions (potentially including sanctions adopted or under consideration by the U.S. or the European Union with respect to Russia or Russian individuals or businesses), could adversely impact economic activity and lead to a contraction of capital spending by our customers generally or in specific regions. Any or all of these factors could adversely affect our financial condition and results of operations in the future.

We are exposed to fluctuations in interest rates and changes in credit risk which could have a material adverse impact on our financial condition and results of operations as it relates to the market value of our investment portfolio and interest rate swap contracts.

Our cash, short-term and long-term investments represent significant assets that may be subject to fluctuating or even negative returns depending upon interest rate movements, changes in credit risk and financial market conditions. Global credit market disruptions and economic slowdown and uncertainty have in the past negatively impacted the values of various types of investment and non-investment grade securities. The global credit and capital markets may again experience significant volatility and disruption due to instability in the global financial system, uncertainty related to global economic conditions and concerns regarding sovereign financial stability.

Therefore, there is a risk that we may incur other-than-temporary impairment charges for certain types of investments should credit market conditions deteriorate or the underlying assets fail to perform as anticipated. Our future investment income may fall short of expectations due to changes in interest rates or if the decline in fair values of our debt securities was judged to be other than temporary. Furthermore, we may suffer losses in principal on our investments including our interest rate swap contracts if we are forced to sell securities that have declined in market value due to changes in interest rates or financial market conditions.

Our failure to protect and defend our IP could impair our ability to compete effectively.

We rely upon patent, copyright, trade secret, mask work and trademark laws to protect our IP. We cannot provide assurance that such IP rights can be successfully asserted in the future or will not be invalidated, violated, circumvented or challenged. From time to time, third parties, including our competitors, have asserted against us patent, copyright or other IP rights to technologies that are important to us. Third parties may attempt to misappropriate our IP through electronic or other means or assert infringement claims against us or parties we have agreed to indemnify. Such assertions by third parties may result in costly litigation, indemnity claims or other legal actions, and we may not prevail in such matters or be able to license any valid and infringed patents from third parties on commercially reasonable terms. This could result in the loss of our ability to import and sell our products or require us to pay costly royalties to third parties in connection with sales of our products. Any infringement claim, indemnification claim, or impairment or loss of use of our IP could materially adversely affect our financial condition and results of operations.

Table of Contents

Our ability to design and introduce new products in a timely manner is dependent upon third-party IP.

In the design and development of new products and product enhancements, we rely on third-party intellectual property such as software development tools and hardware testing tools. Furthermore, certain product features may rely on intellectual property acquired from third parties, including hardware and software tools and products. The design requirements necessary to meet future consumer demands for more features and greater functionality from semiconductor products may exceed the capabilities of the third-party intellectual property or development tools that are available to us. In addition, hardware and software tools and products procured from third parties may contain design or manufacturing defects, including flaws that could unexpectedly interfere with the operation of our products. If the third-party intellectual property that we use becomes unavailable or fails to produce designs that meet consumer demands, our business could be adversely affected.

Any failure of our information technology systems to function properly could result in business disruption.

We rely in part on various information technology (IT) systems to manage our operations, including, but not limited to, financial reporting, and we regularly evaluate these systems and make changes to improve them as necessary. Consequently, we periodically implement new, or upgrade or enhance existing, operational and IT systems, procedures and controls. Any delay in the implementation of, or disruption in the transition to, new or enhanced systems, procedures or controls, could harm our ability to record and report financial, management, or operational information on a timely and accurate basis. In addition, hardware and software tools and products procured from third parties included in our IT systems could contain design or manufacturing defects, including flaws that could unexpectedly interfere with the operation of our IT systems. These systems are also subject to power and telecommunication outages or other general system failures. Failure of our IT systems or difficulties in managing them could result in business disruption.

Cyber-attacks and data breaches could have an adverse effect on our business and reputation and negatively impact our financial condition and results of operations.

Security breaches, including cyber-attacks, phishing attacks or attempts to misappropriate or compromise confidential or proprietary information or sabotage enterprise IT systems, are becoming increasingly frequent and more sophisticated. We depend on the uninterrupted operation of our IT systems to manage our operations, store and retrieve business and financial data and facilitate internal communications and communications with customers, subcontractors, suppliers and distribution partners. We experience security incidents of varying degrees on an ongoing basis. We take steps to detect and investigate any security incidents and prevent their recurrence, but, in some cases, we might be unaware of an incident or its magnitude and effects. Because the techniques used to obtain unauthorized access to or sabotage networks and systems change frequently, we may be unable to anticipate these techniques or to implement adequate protections. These security incidents may involve unauthorized access, misuse or disclosure of intellectual property or confidential or proprietary information regarding our business or that of our customers or business partners. We also may be subject to unauthorized access to our IT systems through a security breach or cyber-attack. In the past there have been attempts by third parties to penetrate and/or infect our network and systems with malicious software in an effort to gain access to our network and systems. Recently, several large organizations have been infected by “ransomware,” through which an attacker gains access to the organization’s computer files, renders them temporarily inaccessible and threatens to permanently delete them if a cash ransom is not paid by a specified deadline. Third parties may continue to attempt to fraudulently induce employees, users, or customers to disclose sensitive information in order to gain access to our network and systems. The IT systems of our customers, suppliers, and distribution partners and the links between our IT systems and our customers are subject to the same risks as those of our IT systems. In the event of a security breach, our business and reputation could be harmed and we could be subject to legal and regulatory claims which could negatively impact our financial condition and results of operations.

Acquisitions and strategic investments present risks, and we may not realize the goals that were contemplated at the time of a transaction.

In the past, we have acquired technology companies whose products complement our products. We also have made a number of strategic investments in other technology companies. We may make similar acquisitions and strategic investments in the future. Acquisitions and strategic investments present risks, including:

- our ongoing business may be disrupted and our management's attention may be diverted by investment, acquisition, transition or integration activities;
- an acquisition or strategic investment may not further our business strategy as we expected, and we may not integrate an acquired company or technology as successfully as we expected;
- our operating results or financial condition may be adversely impacted by claims or liabilities that we assume from an acquired company or technology or that are otherwise related to an acquisition;

Table of Contents

- we may have difficulty incorporating acquired technologies or products with our existing product lines;
- we may have higher than anticipated costs in continuing support and development of acquired products, and in general and administrative functions that support such products;
- our strategic investments may not perform as expected; and
- we may experience unexpected changes in how we are required to account for our acquisitions and strategic investments pursuant to U.S. GAAP.

The occurrence of any of these risks could have a material adverse effect on our business, results of operations, financial condition or cash flows, particularly in the case of a larger acquisition or several concurrent acquisitions or strategic investments.

If we are unable to maintain effective internal controls, our stock price could be adversely affected.

We are subject to the ongoing internal control provisions of Section 404 of the Sarbanes-Oxley Act of 2002 (the Sarbanes-Oxley Act). Our controls necessary for continued compliance with the Sarbanes-Oxley Act may not operate effectively at all times and may result in a material weakness disclosure. The identification of material weaknesses in internal control, if any, could indicate a lack of proper controls to generate accurate financial statements and could cause investors to lose confidence and our stock price to drop.

We compete with others to attract and retain key personnel, and any loss of, or inability to attract, such personnel would harm us.

We depend on the efforts and abilities of certain key members of management and other technical personnel. Our future success depends, in part, upon our ability to retain, develop and transition such personnel and attract and retain other highly qualified personnel, particularly product engineers. Competition for such personnel is intense and we may not be successful in hiring or retaining new or existing qualified personnel. Changes to the U.S. immigration laws may also impact the availability of qualified personnel. From time to time we have effected restructuring that eliminate a number of positions. Even if such personnel are not directly affected by the restructuring effort, such terminations can have a negative impact on morale and our ability to attract and hire new qualified personnel in the future. If we are unable to retain or develop existing qualified personnel or are unable to hire new qualified personnel, as needed, our business, financial condition and results of operations could be seriously harmed. Further, changes to our qualified personnel, including key members of management, may be disruptive to our business, and any failure to successfully assimilate key new hires, or to successfully retain, develop and transition promoted employees, could adversely affect our business and results of operations.

Unfavorable results of legal proceedings could adversely affect our financial condition and operating results.

From time to time we are subject to various legal proceedings and claims that arise out of the ordinary conduct of our business. The amount of damages alleged in certain legal claims may be significant. Certain other claims involving the Company are not yet resolved, including those that are discussed under "Note 17. Contingencies" to our consolidated financial statements, included in included in Item 1. "Financial Statements" of this Form 10-Q, and additional claims may arise in the future. Results of legal proceedings cannot be predicted with certainty. Regardless of its merit, litigation may be both time-consuming and disruptive to our operations and cause significant expense and diversion of management attention and we may enter into material settlements to avoid these risks. Entering into settlements may result in payment of significant amounts which may materially and adversely affect our financial condition and operation results. Should we fail to prevail in certain matters, or should several of these matters be resolved against us, we may be faced with significant monetary damages or injunctive relief against us that would materially and adversely affect a portion of our business and might materially and adversely affect our financial condition and operating results.

Our products could have defects which could result in reduced revenues and claims against us.

We develop complex and evolving products that include both hardware and software. Despite our testing efforts and those of our subcontractors, defects may be discovered in existing or new products. Such defects may cause us to incur significant warranty, support and repair or replacement costs, divert the attention of our engineering personnel from our product development efforts and harm our relationships with customers. Subject to certain terms and conditions, we have agreed to compensate certain customers for limited specified costs they actually incur in the event our hardware products experience epidemic failure. As a result, epidemic failure and other performance problems could result in claims against us or the delay or loss of market acceptance of our products and would likely harm our business. Our customers could also seek damages from us for their losses.

Table of Contents

In addition, we could be subject to product liability claims. A product liability claim brought against us, even if unsuccessful, would likely be time-consuming and costly to defend. Product liability risks are particularly significant with respect to aerospace, automotive and medical applications because of the risk of serious harm to users of these products. Any product liability claim, whether or not determined in our favor, could result in significant expense, divert the efforts of our technical and management personnel, and harm our business.

In preparing our financial statements, we make good faith estimates and judgments that may change or turn out to be erroneous.

In preparing our financial statements in conformity with accounting principles generally accepted in the U.S., we must make estimates and judgments in applying our critical accounting policies. Those estimates and judgments have a significant impact on the results we report in our consolidated financial statements. The most difficult estimates and subjective judgments that we make concern valuation of marketable and non-marketable securities, revenue recognition, inventories, long-lived assets including acquisition-related intangibles, goodwill, business combination, taxes and stock-based compensation. We base our estimates on historical experience, input from outside experts and various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. We also have other key accounting policies that are not as subjective, and therefore, their application would not require us to make estimates or judgments that are as difficult, but which nevertheless could significantly affect our financial reporting. Actual results may differ materially from these estimates. If these estimates or their related assumptions change, our operating results for the periods in which we revise our estimates or assumptions could be adversely and materially affected.

Our failure to comply with the requirements of the Export Administration Regulations (EAR) and the International Traffic and Arms Regulations (ITAR) could have a material adverse effect on our financial condition and results of operations.

Our FPGAs and related technologies are subject to EAR, which are administered by the U.S. Department of Commerce. In addition, we may, from time to time, receive technical data from third parties that is subject to the ITAR, which are administered by the U.S. Department of State. EAR and ITAR govern the export and re-export of these FPGAs, the transfer of related technologies, whether in the U.S. or abroad, and the provision of services. We are required to maintain an internal compliance program and security infrastructure to meet EAR and ITAR requirements.

An inability to obtain the required export licenses, or to predict when they will be granted, increases the difficulties of forecasting shipments. In addition, security or compliance program failures that could result in penalties or a loss of export privileges, as well as stringent licensing restrictions that may make our products less attractive to overseas customers, could have a material adverse effect on our business, financial condition and/or operating results.

Our inability to effectively control the sale of our products on the gray market could have a material adverse effect on us.

We market and sell our products directly to OEMs and through authorized third-party distributors which helps to ensure that products delivered to our customers are authentic and properly handled. From time to time, customers may purchase products bearing our name from the unauthorized "gray market." These parts may be counterfeit, salvaged or re-marked parts, or parts that have been altered, mishandled, or damaged. Gray market products result in shadow inventory that is not visible to us, thus making it difficult to forecast supply or demand. Also, when gray market products enter the market, we and our authorized distributors may compete with brokers of these discounted products, which can adversely affect demand for our products and negatively impact our margins. In addition, our

reputation with customers may be negatively impacted when gray market products bearing our name fail or are found to be substandard.

Table of Contents

The conflict minerals provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act could result in additional costs and liabilities.

In accordance with the Dodd-Frank Wall Street Reform and Consumer Protection Act, the SEC established disclosure and reporting requirements for companies whose products incorporate "conflict" minerals mined from the Democratic Republic of Congo and adjoining countries, regardless of whether such products are manufactured by those companies or by third parties. These requirements could affect the sourcing and availability of minerals used in the manufacture of our semiconductor products. The costs associated with complying with the disclosure requirements include those for due diligence in regard to the sources of any conflict minerals used in our products, remediation and other changes to products, processes, or sources of supply as a consequence of such verification activities. We may face reputational challenges if we are unable to sufficiently verify the origins for all minerals used in our products through the due diligence process we implement. Moreover, some of our customers may require that all of the components of our products are certified as conflict-free, and we may be unable to verify the origin of the raw materials used in our products to the extent necessary to make this certification.

Exposure to greater than anticipated income tax liabilities, changes in tax rules and regulations, changes in interpretation of tax rules and regulations, or unfavorable assessments from tax audits could affect our effective tax rates, financial condition and results of operations.

We are a U.S.-based multinational company subject to tax in multiple U.S. and foreign tax jurisdictions. Our income tax obligations could be affected by many factors, including but not limited to changes to our corporate operating structure, intercompany arrangements and tax planning strategies.

Our income tax expense is computed based on tax rates at the time of the respective financial period. Our future effective tax rates, financial condition and results from operations could be unfavorably affected by changes in the tax rates in jurisdictions where our income is earned, by changes in the tax rules and regulations or the interpretation of tax rules and regulations in the jurisdictions in which we do business or by changes in the valuation of our deferred tax assets.

Recently enacted U.S. tax legislation significantly changed the taxation of U.S.-based multinational corporations, by, among other things, reducing the U.S. corporate income tax rate, adopting elements of a territorial tax system, assessing a one-time transition tax on earnings of certain foreign subsidiaries that were previously tax deferred, and imposing new taxes on certain foreign-sourced earnings. The legislation is unclear in some respects and will require interpretations and implementing regulations by the Internal Revenue Service, as well as state tax authorities, and the legislation could be subject to amendments and technical corrections, any of which could lessen or increase certain adverse impacts of the legislation. A significant portion of our earnings are earned by our subsidiaries outside the U.S. Changes to the taxation of certain foreign earnings resulting from the newly enacted U.S. tax legislation, along with the state tax impact of these changes, may have an adverse effect on our effective tax rate. Furthermore, changes to the taxation of undistributed foreign earnings could change our future intentions regarding reinvestment of such earnings. The foregoing items could have a material effect on our business, cash flow, results of operations or financial condition.

In addition, we are subject to examinations of our income tax returns by domestic and foreign tax authorities. We regularly assess the likelihood of outcomes resulting from these examinations to determine the adequacy of our provision for income taxes and have reserved for potential adjustments that may result from the current examinations. There can be no assurance that the final determination of any of these examinations will not have an adverse effect on our effective tax rates, financial condition and results of operations.

Considerable amounts of shares of our common stock are available for issuance under our equity incentive plans, and significant issuances in the future may adversely impact the market price of our common stock.

As of December 29, 2018, we had 2.00 billion authorized common shares, of which 253.1 million shares were outstanding. In addition, 30.9 million shares of common stock were reserved for issuance pursuant to our equity incentive plans and Amended and Restated 1990 Employee Qualified Stock Purchase Plan. The availability of substantial amounts of our common stock resulting from the exercise or settlement of equity awards outstanding under our equity incentive plans, which would be dilutive to existing stockholders, could adversely affect the prevailing market price of our common stock and could impair our ability to raise additional capital through the sale of equity securities.

We have indebtedness that could adversely affect our financial condition and prevent us from fulfilling our debt obligations.

The aggregate amount of our consolidated indebtedness as of December 29, 2018 was \$1.75 billion (principal amount), which consists of \$500.0 million in aggregate principal amount of our 2.125% Notes due 2019 (2019 Notes), \$500.0 million in aggregate

Table of Contents

principal amount of our 3.000% Notes due 2021 (2021 Notes) and \$750.0 million in aggregate principal amount of our 2.950% senior notes due 2024 (2024 Notes). We also may incur additional indebtedness in the future. Our indebtedness may:

- make it difficult for us to satisfy our financial obligations, including making scheduled principal and interest payments on the debentures and our other indebtedness;
- limit our ability to borrow additional funds for working capital, capital expenditures, acquisitions or other general corporate purposes;
- limit our ability to use our cash flow or obtain additional financing for future working capital, capital expenditures, acquisitions or other general business purposes;
- require us to use a portion of our cash flow from operations to make debt service payments;
- limit our flexibility to plan for, or react to, changes in our business and industry;
- place us at a competitive disadvantage compared to our less leveraged competitors; and
- increase our vulnerability to the impact of adverse economic and industry conditions;

Our ability to meet our debt service obligations will depend on our future performance, which will be subject to financial, business and other factors affecting our operations, many of which are beyond our control.

The agreements governing the 2019 Notes, 2021 Notes and 2024 Notes contain covenants that may adversely affect our ability to operate our business.

The indentures governing the 2019 Notes, 2021 Notes and 2024 Notes contain various covenants limiting our and our subsidiaries' ability to, among other things:

- create certain liens on principal property or the capital stock of certain subsidiaries;
- enter into certain sale and leaseback transactions with respect to principal property; and
- consolidate or merge with, or convey, transfer or lease all or substantially all our assets, taken as a whole, to, another person.

A failure to comply with these covenants and other provisions in these indentures could result in events of default under the indentures, which could permit acceleration of the 2019 Notes, the 2021 Notes and the 2024 Notes. Any required repayment as a result of such acceleration could have a material adverse effect on our business, results of operations, financial condition or cash flows.

Item 2. Unregistered Sale of Equity Securities and Use of Proceeds

On May 16, 2016, the Board authorized the 2016 Repurchase Program to repurchase of up to \$1.00 billion of shares of our common stock and debentures. The 2016 Repurchase Program has no stated expiration date. Through December 29, 2018, we have used \$953.7 million of the \$1.00 billion authorized under the 2016 Repurchase Program, leaving \$46.3 million available for future purchases. On May 16, 2018, the Board authorized the 2018 Repurchase Program to repurchase the Company's common stock and debentures up to \$500.0 million.

The following table summarizes our repurchase of shares of our common stock during the third quarter of fiscal 2019:

(In thousands, except per share amounts) Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly	Approximate Dollar Value of Shares that May
--	--	------------------------------------	--	---

Edgar Filing: XILINX INC - Form 10-Q

			Announced Program	Yet Be Purchased Under the 2016 and 2018 Programs
September 30, 2018 to November 3, 2018	14	\$ 73.22	14	\$ 546,328
November 4, 2018 to December 1, 2018	—	\$ —	—	\$ 546,328
December 2, 2018 to December 29, 2018	—	\$ —	—	\$ 546,328
Total for the Quarter	14		14	

Table of Contents

Item 6. Exhibits

Exhibit No	Exhibit Title	Incorporated by Reference			Filing Date	Filed Herewith
		Form	File No.	Exhibit		
3.2	<u>Bylaws of the Company, as amended effective as of December 5, 2018</u>	8-K	000-18548	3.2	12/07/2018	
31.1	<u>Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>					X
31.2	<u>Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>					X
32.1	<u>Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u>					X
32.2	<u>Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u>					X
101.INS	XBRL Instance Document					X
101.SCH	XBRL Taxonomy Extension Schema Document					X
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document					X
101.LAB	XBRL Taxonomy Extension Label Linkbase Document					X
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document					X
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document					X

Items 3, 4 and 5 are not applicable and have been omitted.

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

XILINX, INC.

Date: January 25, 2019 /s/ Lorenzo A. Flores
Lorenzo A. Flores
Executive Vice President
and Chief Financial Officer
(as principal accounting and financial
officer and on behalf of Registrant)