

XILINX INC  
Form 10-Q  
October 26, 2017

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 September 30, 2017

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 and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted 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 and post 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 October 13, 2017

Common Stock, \$.01 par value 250,952,891

---

---

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>24</u>
<u>ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	<u>32</u>
<u>ITEM 4. CONTROLS AND PROCEDURES</u>	<u>34</u>
<u>PART II. OTHER INFORMATION</u>	<u>35</u>
<u>ITEM 1. LEGAL PROCEEDINGS</u>	<u>35</u>
<u>ITEM 1A. RISK FACTORS</u>	<u>35</u>
<u>ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS</u>	<u>45</u>
<u>ITEM 6. EXHIBITS</u>	<u>45</u>
<u>SIGNATURES</u>	<u>46</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		Six Months Ended	
	September 30, 2017	October 1, 2016	September 30, 2017	October 1, 2016
Net revenues	\$619,503	\$579,209	\$1,234,949	\$1,154,190
Cost of revenues	184,786	175,875	376,881	344,172
Gross margin	434,717	403,334	858,068	810,018
Operating expenses:				
Research and development	157,985	141,814	311,036	277,939
Selling, general and administrative	91,053	83,463	180,228	166,573
Amortization of acquisition-related intangibles	510	1,244	1,215	2,488
Total operating expenses	249,548	226,521	492,479	447,000
Operating income	185,169	176,813	365,589	363,018
Interest and other income (expense), net	1,831	(1,151)	3,669	(5,738)
Income before income taxes	187,000	175,662	369,258	357,280
Provision for income taxes	19,468	11,470	34,481	30,039
Net income	\$167,532	\$164,192	\$334,777	\$327,241
Net income per common share:				
Basic	\$0.68	\$0.65	\$1.35	\$1.29
Diluted	\$0.65	\$0.61	\$1.28	\$1.22
Cash dividends per common share	\$0.35	\$0.33	\$0.70	\$0.66
Shares used in per share calculations:				
Basic	248,094	253,466	247,960	253,056
Diluted	258,217	270,373	261,739	267,885

See notes to condensed consolidated financial statements.

Table of Contents

XILINX, INC.  
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
 (Unaudited)

(In thousands)	Three Months Ended		Six Months Ended	
	September 30,	October 1,	September 30,	October 1,
	2017	2016	2017	2016
Net income	\$167,532	\$164,192	\$334,777	\$327,241
Other comprehensive income (loss), net of tax:				
Change in net unrealized gains (losses) on available-for-sale securities	763	(1,496 )	5,935	2,230
Reclassification adjustment for gains on available-for-sale securities	(135 )	(368 )	(105 )	(416 )
Change in net unrealized gains (losses) on hedging transactions	756	99	2,198	(683 )
Reclassification adjustment for (gains) losses on hedging transactions	(1,648 )	345	(2,004 )	638
Cumulative translation adjustment, net	678	(384 )	2,438	(347 )
Other comprehensive income (loss)	414	(1,804 )	8,462	1,422
Total comprehensive income	\$167,946	\$162,388	\$343,239	\$328,663

See notes to condensed consolidated financial statements.

Table of ContentsXILINX, INC.  
CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except par value amounts)	September 30, 2017	April 1, 2017 <sup>[1]</sup>
	(unaudited)	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 1,070,193	\$966,695
Short-term investments	2,490,027	2,354,762
Accounts receivable, net	286,855	243,915
Inventories	215,397	227,033
Prepaid expenses and other current assets	109,758	87,711
Total current assets	4,172,230	3,880,116
Property, plant and equipment, at cost	855,019	839,458
Accumulated depreciation and amortization	(550,901)	(535,633)
Net property, plant and equipment	304,118	303,825
Long-term investments	99,862	116,288
Goodwill	161,287	161,287
Acquisition-related intangibles, net	2,361	3,576
Other assets	290,992	275,440
Total Assets	\$ 5,030,850	\$4,740,532
<b>LIABILITIES, TEMPORARY EQUITY AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 88,341	\$108,293
Accrued payroll and related liabilities	192,120	176,601
Income taxes payable	6,766	6,309
Deferred income on shipments to distributors	50,966	54,567
Other accrued liabilities	85,028	95,098
Current portion of long-term debt	—	456,328
Total current liabilities	423,221	897,196
Long-term debt	1,738,666	995,247
Deferred tax liabilities	359,323	317,639
Long-term income taxes payable	5,291	4,503
Other long-term liabilities	18,266	16,908
Commitments and contingencies	—	—
Temporary equity	—	1,406
Stockholders' equity:		
Preferred stock, \$.01 par value (none issued)	—	—
Common stock, \$.01 par value	2,486	2,480
Additional paid-in capital	823,958	803,522
Retained earnings	1,675,858	1,726,312
Accumulated other comprehensive loss	(16,219)	(24,681)
Total stockholders' equity	2,486,083	2,507,633
Total Liabilities, Temporary Equity and Stockholders' Equity	\$ 5,030,850	\$4,740,532

<sup>[1]</sup> Derived from audited financial statements

See notes to condensed consolidated financial statements.

5

---

Table of Contents

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

(In thousands)	Six Months Ended	
	September 30,	October 1,
	2017	2016
Cash flows from operating activities:		
Net income	\$334,777	\$327,241
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	22,964	22,807
Amortization	7,161	7,714
Stock-based compensation	68,408	59,206
Net gain on sale of available-for-sale securities	(756)	(823)
Amortization of debt discounts	1,964	6,034
Provision for deferred income taxes	38,206	32,607
Other	1,500	—
Changes in assets and liabilities:		
Accounts receivable, net	(42,940)	79,700
Inventories	11,504	(18,409)
Prepaid expenses and other current assets	(18,383)	(3,765)
Other assets	(12,645)	(5,037)
Accounts payable	(20,585)	1,701
Accrued liabilities	23,434	19,046
Income taxes payable	(17,960)	(11,439)
Deferred income on shipments to distributors	(3,601)	5,646
Net cash provided by operating activities	393,048	522,229
Cash flows from investing activities:		
Purchases of available-for-sale securities	(1,367,972)	(1,952,967)
Proceeds from sale and maturity of available-for-sale securities	1,257,571	2,023,314
Purchases of property, plant and equipment	(22,149)	(31,950)
Other investing activities	(8,461)	(15,849)
Net cash provided by (used in) investing activities	(141,011)	22,548
Cash flows from financing activities:		
Repurchases of common stock	(237,516)	(200,139)
Restricted stock units withholdings	(42,053)	(28,352)
Proceeds from issuance of common stock through various stock plans	19,358	37,865
Payment of dividends to stockholders	(174,260)	(167,477)
Repayment of convertible debt	(457,918)	—
Proceeds from issuance of long-term debt, net	745,175	—
Other financing activities	(1,325)	—
Net cash used in financing activities	(148,539)	(358,103)
Net increase in cash and cash equivalents	103,498	186,674
Cash and cash equivalents at beginning of period	966,695	503,816
Cash and cash equivalents at end of period	\$1,070,193	\$690,490
Supplemental disclosure of cash flow information:		
Interest paid	\$18,608	\$20,688
Income taxes paid, net	\$14,789	\$9,118



See notes to condensed consolidated financial statements.

6

---

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 April 1, 2017. 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 31, 2018 or any future period.

The Company uses a 52- to 53-week fiscal year ending on the Saturday nearest March 31. Fiscal year 2018 and fiscal year 2017 are both 52-week years ending on March 31, 2018 and April 1, 2017, respectively. The quarters ended on September 30, 2017 and October 1, 2016 each consisted of 13 weeks.

Note 2. Recent Accounting Changes and Accounting Pronouncements

In April 2014, the Financial Accounting Standards Board (FASB) issued the authoritative guidance, as amended, that outlines a new global 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 authoritative 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 authoritative guidance is required to be applied retrospectively to each prior reporting period presented, or retrospectively with the cumulative effect of initially applying it recognized at the date of initial application. The Company is currently evaluating the full impact of this new authoritative guidance on its consolidated financial statements, including selection of the transition method. However, assuming all other revenue recognition criteria have been met, it is expected that the new authoritative guidance would require the Company to recognize revenue and cost relating to distributor sales upon product delivery (Sell-In), subject to estimated allowance for distributor price adjustments and rights of return, rather than deferring the distributor sales upon product delivery and subsequently recognizing revenue when the product is sold by the distributor to the end customer (Sell-Through). Upon adoption, the Company currently expects that it will record the balance of the deferred revenue (subject to true-ups) under Sell-Through to retained earnings, and the impact would be offset by the recognition of revenue on shipments post adoption under Sell-In. The Company continues to evaluate the impact to revenues and related disclosures related to the pending adoption of the new guidance and the preliminary assessments are subject to change. Depending on timing of customer orders, timing of shipment to distributors and to end customers, distributor inventory strategies and other factors that may be beyond the Company's control, the difference in revenue recognized under Sell-Through and Sell-In could be material in the future. The authoritative guidance will be effective for the Company beginning in fiscal year 2019 as the Company decided not to early adopt it in fiscal year 2018.

In January 2016, the FASB issued the 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. The new authoritative guidance also changes certain disclosure requirements and other aspects of current U.S. GAAP. It 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, which for Xilinx would be the first quarter of fiscal year 2019. Upon adoption, the Company would record all of the unrealized gains or losses from its investment in mutual funds to retained earnings, and subsequent changes in fair value from such investments will be recorded under its consolidated statements of income.

In February 2016, the FASB issued the 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 year 2020. Early adoption is permitted. The new authoritative guidance must be adopted using a modified retrospective transition, and provides for certain practical expedients. In addition, the transition will

Table of Contents

require application of the new authoritative guidance at the beginning of the earliest comparative period presented. The Company is currently evaluating the impact of this new authoritative guidance on its consolidated financial statements.

In August 2016, the FASB issued authoritative guidance for cash flow classification. The new authoritative guidance is intended to reduce diversity in practice in how cash receipts and cash payments are classified in the statement of cash flows. The new authoritative guidance will be effective for public business entities in fiscal years beginning after December 15, 2017, including interim periods within those years, which for Xilinx would be the first quarter of fiscal year 2019. Early adoption is permitted. The Company is currently evaluating the impact of this new authoritative guidance on its consolidated financial statements.

In October 2016, the FASB issued authoritative guidance for accounting for 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 new authoritative guidance will be effective for public business entities in fiscal years beginning after December 15, 2017, which for Xilinx would be the first quarter of fiscal year 2019. Early adoption is permitted as of the beginning of the annual period. The authoritative guidance will be effective for the Company beginning in fiscal year 2019 as the Company decided not to early adopt it in fiscal year 2018. The Company is currently evaluating the impact of this new authoritative guidance on its consolidated financial statements.

In May 2017, the FASB issued authoritative guidance that clarifies the scope of modification accounting for share-based compensation. Under the new guidance, modification accounting is required only if the fair value, the vesting conditions, or the classification of the award (as equity or liability) changes as a result of the change in terms or conditions. The new guidance will reduce diversity in practice and result in fewer changes to the terms of an award being accounted for as modifications. The new authoritative guidance will be effective for public business entities in fiscal years beginning after December 15, 2017, which for Xilinx would be the first quarter of fiscal year 2019. Early adoption is permitted as of the beginning of the annual period. The authoritative guidance will be effective for the Company beginning in fiscal year 2019 as the Company decided not to early adopt it in fiscal year 2018. The Company is currently evaluating the impact of this new authoritative guidance on its consolidated financial statements.

In August 2017, the FASB issued authoritative guidance that amended the accounting for hedging activities. The guidance permits more hedging strategies to be eligible for hedge accounting and simplifies the application of hedge accounting guidance in areas where practice issues exist. The new authoritative guidance will be effective for public business entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2018, which for Xilinx would be the first quarter of fiscal year 2020. Early adoption is permitted, including adoption in any interim periods after issuance of the authoritative guidance. The Company is currently evaluating the impact of this new authoritative guidance on its 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 September 30, 2017 and April 1, 2017, Avnet accounted for 67% and 59% of the Company's total net accounts receivable, respectively. For the second quarter and first six months of fiscal year 2018, resale of product through Avnet accounted for 44% and 42% of the Company's worldwide net revenues, respectively. For the second quarter and the first six months of fiscal year 2017, resale of product through Avnet accounted for 43% and 50% 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 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 from distributors.

No end customer accounted for more than 10% of the Company's worldwide net revenues for the second quarter as well as the first six months of fiscal years 2018 and 2017.

The Company mitigates concentrations of credit risk in its investments in debt securities by currently investing approximately 84% 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.

## Table of Contents

As of September 30, 2017, approximately 33% 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 and 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 activities, 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 first six months of fiscal year 2018 and the Company did not adjust or override any fair value measurements as of September 30, 2017.

### 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 and money market funds.

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, bank

loans, 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.

#### 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

Table of Contents

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 September 30, 2017 and April 1, 2017:

(In thousands)	September 30, 2017			Total Fair Value
	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
<b>Assets</b>				
Cash equivalents:				
Money market funds	\$ 323,034	\$—	\$	—\$ 323,034
Financial institution securities	—	255,864	—	255,864
Non-financial institution securities	—	192,800	—	192,800
U.S. government and agency securities	13,880	31,528	—	45,408
Foreign government and agency securities	—	184,868	—	184,868
Short-term investments:				
Financial institution securities	—	324,853	—	324,853
Non-financial institution securities	—	226,546	—	226,546
U.S. government and agency securities	27,098	23,158	—	50,256
Foreign government and agency securities	—	79,920	—	79,920
Asset-backed securities	—	217,827	—	217,827
Mortgage-backed securities	—	1,154,680	—	1,154,680
Debt mutual fund	—	34,029	—	34,029
Bank loans	—	157,899	—	157,899
Commercial mortgage-backed securities	—	244,017	—	244,017
Long-term investments:				
Asset-backed securities	—	1,430	—	1,430
Mortgage-backed securities	—	41,971	—	41,971
Debt mutual fund	—	56,461	—	56,461
Total assets measured at fair value	\$ 364,012	\$ 3,227,851	\$	—\$ 3,591,863
<b>Liabilities</b>				
Derivative financial instruments, net	\$—	\$ 1,462	\$	—\$ 1,462
Total liabilities measured at fair value	\$—	\$ 1,462	\$	—\$ 1,462
Net assets measured at fair value	\$ 364,012	\$ 3,226,389	\$	—\$ 3,590,401



Table of Contents

(In thousands)	April 1, 2017 Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
<b>Assets</b>				
<b>Cash equivalents:</b>				
Money market funds	\$298,307	\$—	\$—	—\$298,307
Non-financial institution securities	—	205,322	—	205,322
Foreign government and agency securities	—	177,310	—	177,310
Financial institution securities	—	158,962	—	158,962
U.S government and agency securities	2,998	50,984	—	53,982
<b>Short-term investments:</b>				
Financial institution securities	—	189,835	—	189,835
Non-financial institution securities	—	203,938	—	203,938
U.S. government and agency securities	31,732	44,820	—	76,552
Foreign government and agency securities	—	144,811	—	144,811
Mortgage-backed securities	—	1,115,403	—	1,115,403
Debt mutual fund	—	34,068	—	34,068
Bank loans	—	154,014	—	154,014
Asset-backed securities	—	218,170	—	218,170
Commercial mortgage-backed securities	—	217,971	—	217,971
<b>Long-term investments:</b>				
Mortgage-backed securities	—	60,099	—	60,099
Debt mutual fund	—	54,608	—	54,608
Asset-backed securities	—	1,581	—	1,581
Derivative financial instruments, net	—	1,661	—	1,661
Total assets measured at fair value	\$333,037	\$3,033,557	\$—	—\$3,366,594

**Changes in Level 3 Instruments Measured at Fair Value on a Recurring Basis**

The following table is a reconciliation of all assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3):

(In thousands)	Three Months Ended September 30, 2017	Six Months Ended September 30, 2017
Balance as of beginning of period	\$ —	\$ 10,068
Total unrealized gains (losses):		
Included in other comprehensive income (loss)	— 92	— 183
Balance as of end of period	\$ —	\$ 10,160

As of September 30, 2017, the Company held no marketable securities measured at fair value using Level 3 inputs.

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,

11

---

Table of Contents

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 September 30, 2017 were approximately \$501.3 million, \$509.6 million and \$750.1 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).

## Note 5. Financial Instruments

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

(In thousands)	September 30, 2017				April 1, 2017			
	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	\$ 323,034	\$ —	\$ —	\$ 323,034	\$ 298,307	\$ —	\$ —	\$ 298,307
Financial institution securities	580,717	—	—	580,717	348,797	—	—	348,797
Non-financial institution securities	418,879	744	(277 )	419,346	409,109	647	(496 )	409,260
U.S. government and agency securities	—	5	(134 )	95,664	130,749	8	(223 )	130,534
Foreign government and agency securities	264,788	—	—	264,788	322,172	—	(51 )	322,121
Mortgage-backed securities	1,201,005	5,409	(9,763 )	1,196,651	1,186,732	3,527	(14,757 )	1,175,502
Asset-backed securities	219,255	480	(478 )	219,257	220,033	404	(686 )	219,751
Debt mutual funds	101,350	—	(10,860 )	90,490	101,350	—	(12,674 )	88,676
Bank loans	157,510	643	(254 )	157,899	153,281	839	(106 )	154,014
Commercial mortgage-backed securities	247,390	199	(3,572 )	244,017	221,504	146	(3,679 )	217,971
	\$3,609,721	\$ 7,480	\$ (25,338 )	\$3,591,863	\$3,392,034	\$ 5,571	\$ (32,672 )	\$3,364,933

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 September 30, 2017 and April 1, 2017:

(In thousands)	September 30, 2017						
	Fair Value	Less Than 12 Months		12 Months or Greater		Total Fair Value	Gross Unrealized Losses
		Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value		
Non-financial institution securities	\$62,033	\$ (210 )	\$5,606	\$ (67 )	\$67,639	\$ (277 )	
U.S. government and agency securities	34,015	(125 )	5,130	(9 )	39,145	(134 )	
Mortgage-backed securities	730,974	(6,516 )	157,026	(3,247 )	888,000	(9,763 )	
Asset-backed securities	135,560	(464 )	4,757	(14 )	140,317	(478 )	
Debt mutual funds	—	—	90,490	(10,860 )	90,490	(10,860 )	

Edgar Filing: XILINX INC - Form 10-Q

Bank loans	30,107	(254	) —	—	30,107	(254	)
Commercial mortgage-backed securities	119,843	(893	) 60,028	(2,679	) 179,871	(3,572	)
	\$1,112,532	\$ (8,462	) \$323,037	\$ (16,876	) \$1,435,569	\$ (25,338	)

12

---

Table of Contents

(In thousands)	April 1, 2017					
	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	\$68,850	\$ (492 )	\$1,022	\$ (4 )	\$69,872	\$ (496 )
U.S. government and agency securities	64,895	(223 )	—	—	64,895	(223 )
Mortgage-backed securities	811,058	(11,872 )	139,931	(2,885 )	950,989	(14,757 )
Asset-backed securities	119,845	(651 )	4,689	(35 )	124,534	(686 )
Debt mutual funds	—	—	88,676	(12,674 )	88,676	(12,674 )
Bank loans	15,139	(106 )	—	—	15,139	(106 )
Foreign government and agency securities	64,857	(51 )	—	—	64,857	(51 )
Commercial mortgage-backed securities	165,393	(1,706 )	24,362	(1,973 )	189,755	(3,679 )
	\$1,310,037	\$ (15,101 )	\$258,680	\$ (17,571 )	\$1,568,717	\$ (32,672 )

As of September 30, 2017, 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, although the percentage of such losses to the total estimated fair value of the mortgage-backed securities was relatively insignificant. The gross unrealized losses that had been outstanding for more than twelve months were primarily related to debt mutual funds, mortgage-backed securities and commercial mortgage-backed securities, which were primarily due to the general rising of the interest-rate environment and foreign currency movement.

The Company reviewed the investment portfolio and determined that the gross unrealized losses on these investments as of September 30, 2017 and April 1, 2017 were temporary in nature as evidenced by the fluctuations in the gross unrealized losses within the investment categories. These investments are highly rated by the credit rating agencies, there have been no defaults on any of these securities and we have 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 were redeemed or prepaid by the debtors at par. Furthermore, the aggregate of individual unrealized losses that had been outstanding for twelve months or more were not significant as of September 30, 2017 and April 1, 2017, the majority of which were related to debt mutual funds due to foreign currency and interest rate fluctuations. The Company neither intends to sell these investments 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 (financial institution securities, non-financial institution securities, U.S. and foreign government and agency securities, asset-backed securities, bank loans, mortgage-backed securities and commercial mortgage-backed 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)	September 30, 2017	
	Amortized Cost	Estimated Fair Value
Due in one year or less	\$1,200,344	\$1,200,345
Due after one year through five years	469,451	467,424
Due after five years through ten years	312,956	312,503

Edgar Filing: XILINX INC - Form 10-Q

Due after ten years	1,202,586	1,198,067
	\$3,185,337	\$3,178,339

As of September 30, 2017, \$1.93 billion of marketable debt securities with contractual maturities of greater than one year were classified as short-term investments. Additionally, the above table did not include investments in money market and mutual funds because these funds do not have specific contractual maturities.

13

---

Table of Contents

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

(In thousands)	Three Months Ended		Six Months Ended	
	September 30, 2017	October 1, 2016	September 30, 2017	October 1, 2016
Proceeds from sale of available-for-sale securities	\$149,497	\$153,871	\$269,419	\$253,345
Gross realized gains on sale of available-for-sale securities	\$519	\$762	\$1,351	\$1,427
Gross realized losses on sale of available-for-sale securities	(209)	(92)	(595)	(604)
Net realized gains on sale of available-for-sale securities	\$310	\$670	\$756	\$823
Amortization of premiums on available-for-sale securities	\$4,691	\$7,414	\$10,213	\$14,175

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

#### Note 6. Derivative Financial Instruments

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 six months ended September 30, 2017, the net change in fair values of the interest rate swap contracts and the underlying 2024 Notes was \$2.8 million, which was recorded as a derivative liability for the interest rate swap contracts (as a component of other long-term liabilities on the condensed consolidated balance sheets) and also a reduction from the carrying amount of 2024 Notes. There was no ineffectiveness during all periods presented. Other than this arrangement, there have been no material changes to the Company's derivative financial instruments since April 1, 2017.

#### 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):

(In thousands)	Three Months Ended		Six Months Ended	
	September 30, 2017	October 1, 2016	September 30, 2017	October 1, 2016
Stock-based compensation included in:				
Cost of revenues	\$2,147	\$1,930	\$4,297	\$4,049
Research and development	20,096	16,529	37,562	31,649
Selling, general and administrative	14,129	11,343	26,549	23,508
	\$36,372	\$29,802	\$68,408	\$59,206

### 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 six months of fiscal year 2018 and the entire fiscal year 2017. The Company's stock-based compensation expenses related to options during the first six months of fiscal year 2018 and the number of options outstanding as of September 30, 2017 were not material. On August 9, 2017, the stockholders approved an amendment to increase the authorized number of shares



Table of Contents

reserved for issuance under the 2007 Equity Plan by 1.9 million shares. As of September 30, 2017, 11.4 million shares remained available for grant under the 2007 Equity Plan.

The total pre-tax intrinsic value of options exercised during the three and six months ended September 30, 2017 was \$465 thousand and \$3.2 million, respectively. The total pre-tax intrinsic value of options exercised during the three and six months ended October 1, 2016 was \$8.8 million and \$21.4 million, respectively. This intrinsic value represents the difference between the exercise price and the fair market value of the Company's common stock on the date of exercise.

## 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 2, 2016	6,619	\$ 40.74
Granted	3,398	\$ 44.38
Vested	(2,619)	\$ 39.49
Cancelled	(410 )	\$ 41.63
April 1, 2017	6,988	\$ 42.93
Granted	3,262	\$ 59.89
Vested	(2,288)	\$ 41.99
Cancelled	(314 )	\$ 46.76
September 30, 2017	7,648	\$ 49.91

The estimated fair values of RSU awards 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 second quarter of fiscal year 2018 was \$59.99 (\$42.89 for the second quarter of fiscal year 2017), and for the first six months of fiscal year 2018 was \$59.89 (\$42.87 for the first six months of fiscal year 2017), which were calculated based on estimates at the date of grant using the following weighted-average assumptions:

	Three Months		Six Months	
	Ended	Ended	Ended	Ended
	September 30, 2017	October 1, 2016	September 30, 2017	October 1, 2016
Risk-free interest rate	1.7 %	0.8 %	1.7 %	0.8 %
Dividend yield	2.2 %	2.9 %	2.2 %	2.9 %

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 its employees.

During the second quarter and the first six months of fiscal year 2018, the Company realized excess tax benefits of \$6.3 million and \$17.9 million, respectively. During the second quarter and the first six months of fiscal year 2017, the Company realized excess tax benefits of \$2.9 million and \$9.7 million, respectively. These benefits were recorded in the condensed consolidated statements of income as a component of the provision for income taxes.

### Employee Stock Purchase Plan

Under the ESPP, shares are only issued during the second and fourth quarters of each fiscal year. Employees purchased 355 thousand shares for \$16.9 million during the second quarter of fiscal year 2018 and 446 thousand shares for \$15.0 million during the second quarter of fiscal year 2017. The per-share weighted-average fair value of stock purchase rights granted under the ESPP during the second quarter of fiscal years 2018 and 2017 was \$16.46 and \$11.64, respectively. The fair values of stock purchase plan rights granted in the second quarter of fiscal years 2018 and 2017 were estimated using the Black-Scholes option pricing model at the date of grant using the following assumptions:

15

---

Table of Contents

	2018	2017
Expected life of options (years)	1.25	1.25
Expected stock price volatility	0.28	0.23
Risk-free interest rate	1.3 %	0.5 %
Dividend yield	2.2 %	2.6 %

The next scheduled purchase under the ESPP is in the fourth quarter of fiscal year 2018. On August 9, 2017, the stockholders approved an amendment to increase the authorized number of shares reserved for issuance under the ESPP by 2.0 million shares. As of September 30, 2017, 9.9 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 the information on the condensed consolidated statements of income, and there are no reconciling items in the numerator used to compute 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		Six Months Ended	
	September 30, 2017	October 1, 2016	September 30, 2017	October 1, 2016
Net income available to common stockholders	\$167,532	\$164,192	\$334,777	\$327,241
Weighted average common shares outstanding-basic	248,094	253,466	247,960	253,056
Dilutive effect of employee equity incentive plans	2,532	2,126	2,949	2,319
Dilutive effect of 2017 Convertible Notes	—	9,587	2,986	8,736
Dilutive effect of warrants	7,591	5,194	7,844	3,774
Weighted average common shares outstanding-diluted	258,217	270,373	261,739	267,885
Basic earnings per common share	\$0.68	\$0.65	\$1.35	\$1.29
Diluted earnings per common share	\$0.65	\$0.61	\$1.28	\$1.22

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. The 2017 Convertible Notes matured during the first quarter of fiscal year 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 six months ended September 30, 2017 was calculated based on a weighted-average outstanding basis, it included approximately 3.0 million shares of dilutive impact from the 2017 Convertible Notes through the maturity date. See "Note 10. Debt and Credit Facility" for more discussion of the Company's debt, call options and warrants.

Outstanding stock options and RSUs under the Company's stock award plans to purchase approximately 1.0 million and 3.2 million shares, for the second quarter and the first six months of fiscal year 2018, respectively, were excluded from diluted net income per common share by applying the treasury stock method, as their inclusion would have been anti-dilutive. 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)	September 30, 2017	April 1, 2017
Raw materials	\$ 16,699	\$ 14,517
Work-in-process	152,252	161,120
Finished goods	46,446	51,396
	\$ 215,397	\$ 227,033

## Note 10. Debt and Credit Facility

## 2017 Convertible Notes

During the first quarter of fiscal year 2018, the Company received conversion requests from the remaining holders of the 2017 Convertible Notes. Upon settlement, the holders received a cash payment equal to the par value of the 2017 Convertible Notes of \$457.9 million, as well as 9.0 million shares of the Company's common stock. In conjunction with the settlement, the Company exercised its call options on its shares of common stock that it purchased to hedge against the dilution from the conversion of the 2017 Convertible Notes, and received 9.0 million shares from the hedge counterparties. As of the end of the first quarter of fiscal year 2018, the 2017 Convertible Notes were no longer outstanding.

The carrying values of the liability and equity components of the 2017 Convertible Notes are reflected in the Company's condensed consolidated balance sheets as follows:

(In thousands)	September 30, 2017	April 1, 2017
Liability component:		
Principal amount of the 2017 Convertible Notes	\$	—\$457,918
Unamortized discount of liability component	—	(1,977 )
Hedge accounting adjustment – sale of interest rate swap	—	571
Unamortized debt issuance costs associated with 2017 Convertible Notes	—	(184 )
Net carrying value of the 2017 Convertible Notes	\$	—\$456,328
Equity component (including temporary equity) – net carrying value	\$	—\$50,688

Prior to the conversion, interest expense related to the 2017 Convertible Notes was included in interest and other income (expense), net on the condensed consolidated statements of income, and was recognized as follows:

(In thousands)	Three Months Ended		Six Months Ended	
	September 30, 2017	October 30, 2016	September 30, 2017	October 30, 2016
Contractual coupon interest	\$ —	\$ 3,938	\$ 2,300	\$ 7,875
Amortization of debt issuance costs	—	362	184	724
Amortization of debt discount, net	—	2,763	1,406	5,526
Total interest expense related to the 2017 Convertible Notes	\$ —	\$ 7,063	\$ 3,890	\$ 14,125

To reduce the hedging costs of purchasing the call options on its common stock as described above, the Company, under separate transactions, sold warrants to independent counterparties, which give the counterparties the right to purchase up to 21.1 million shares of the Company's common stock at \$40.26 per share. Portions of the warrants were exercised during the quarter ended September 30, 2017 and the Company issued 2.2 million shares of its common stock as part of the settlement. The remainder of the warrants will expire and settle on a gradual basis through

November 2017. Subsequent to the quarter-end, as of October 26, 2017, the Company issued 2.3 million shares of its common stock as part of the settlement of additional warrant exercises.

Table of Contents

## 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 September 30, 2017, the remaining term of the 2019 Notes and 2021 Notes are 1.5 years and 3.5 years, respectively.

The following table summarizes the carrying value of the 2019 Notes and 2021 Notes as of September 30, 2017 and April 1, 2017:

(In thousands)	September 30, April 1,	
	2017	2017
Principal amount of the 2019 Notes	\$ 500,000	\$500,000
Unamortized discount of the 2019 Notes	(770	) (1,037 )
Unamortized debt issuance costs associated with the 2019 Notes	(484	) (654 )
Principal amount of the 2021 Notes	500,000	500,000
Unamortized discount of the 2021 Notes	(1,852	) (2,107 )
Unamortized debt issuance costs associated with the 2021 Notes	(833	) (955 )
Total carrying value	\$ 996,061	\$995,247

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		Six Months Ended	
	September 30, October 1,		September 30, October 1,	
	2017	2016	2017	2016
Contractual coupon interest	\$6,406	\$ 6,406	\$12,813	\$ 12,813
Amortization of debt issuance costs	146	146	293	293
Amortization of debt discount, net	262	255	520	507
Total interest expense related to the 2019 Notes and 2021 Notes	\$6,814	\$ 6,807	\$13,626	\$ 13,613

## 2024 Notes

On May 30, 2017, the Company issued the 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 September 30, 2017, the remaining term of the 2024 Notes is approximately 6.7 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 earned a net interest income of \$1.5 million and \$2.1 million during the three and six months ended September 30, 2017, respectively, from the interest rate swap contracts, which

was included in interest and other income (expense), net on the condensed consolidated statements of income as a reduction to interest expense. As of September 30, 2017, the fair value of the interest rate swap contracts was \$2.8 million, which was recorded in other long-term liabilities on the condensed consolidated balance sheets.



Table of Contents

The following table summarizes the carrying value of the 2024 Notes as of September 30, 2017 and April 1, 2017:

(In thousands)	September 30, 2017	April 1, 2017
Principal amount of the 2024 Notes	\$ 750,000	\$ —
Unamortized discount of the 2024 Notes	(810)	) —
Unamortized debt issuance costs associated with 2024 Notes	(3,789)	) —
Carrying value of the 2024 Notes	\$ 745,401	\$ —
Fair value hedge adjustment - interest rate swap contracts	(2,796)	) —
Net carrying value of the 2024 Notes	\$ 742,605	\$ —

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		Six Months Ended	
	September 30, 2017	October 1, 2016	September 30, 2017	October 1, 2016
Contractual coupon interest	\$ 4,046	\$ —	\$ 5,368	\$ —
Amortization of debt issuance costs	142	—	189	—
Amortization of debt discount, net	27	—	37	—
Total interest expense related to the 2024 Notes	\$ 4,215	\$ —	\$ 5,594	\$ —

### 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 September 30, 2017, 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 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.

Through September 30, 2017, the Company had used \$555.4 million of the \$1.00 billion authorized under the 2016 Repurchase Program, leaving \$444.6 million available for future repurchases. The Company's current policy is to retire all repurchased shares, and consequently, no treasury shares were held as of September 30, 2017 and April 1, 2017.

During the first six months of fiscal year 2018, the Company repurchased 3.7 million shares of common stock in the open market and through an accelerated share repurchase agreement with an independent financial institution for a total of \$237.5 million. During the first six months of fiscal year 2017, the Company repurchased 4.1 million shares of common stock in the open market for a total of \$200.1 million.



Table of Contents

## 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		Six Months Ended	
	September 30, 2017	October 1, 2016	September 30, 2017	October 1, 2016
Interest income	\$ 13,832	\$ 12,098	\$ 27,246	\$ 23,564
Interest expense	(11,029 )	(13,870 )	(23,110 )	(27,738 )
Other income (expense), net	(972 )	621	(467 )	(1,564 )
Interest and other income (expense), net	\$ 1,831	\$ (1,151 )	\$ 3,669	\$ (5,738 )

## 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 accumulated other comprehensive loss are as follows:

(In thousands)	September 30, 2017	April 1, 2017
Accumulated unrealized losses on available-for-sale securities, net of tax	\$ (11,260 )	\$ (17,091 )
Accumulated unrealized gains on hedging transactions, net of tax	854	661
Accumulated cumulative translation adjustment, net of tax	(5,813 )	(8,251 )
Accumulated other comprehensive loss	\$ (16,219 )	\$ (24,681 )

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

## Note 14. Income Taxes

The Company recorded tax provisions of \$19.5 million and \$34.5 million for the second quarter and the first six months of fiscal year 2018, respectively, representing an effective tax rate of 10% and 9%, respectively. The Company recorded tax provisions of \$11.5 million and \$30.0 million for the second quarter and the first six months of fiscal year 2017, respectively, representing an effective tax rate of 7% and 8%, respectively.

The difference between the U.S. federal statutory tax rate of 35% and the Company's effective tax rate in all periods was primarily due to income earned in lower tax rate jurisdictions, for which no U.S. income tax has been provided, as the Company intends to permanently reinvest these earnings outside of the U.S.

The Company's total gross unrecognized tax benefits as of September 30, 2017 increased by \$90.6 million in the first six months of fiscal year 2018 to \$121.0 million. The increase is primarily attributable to an additional deduction claimed on federal and state amended returns for repurchase premium paid in connection with the early redemption of the Company's 3.125% Junior Convertible debenture due March 15, 2037 (2037 Convertible Notes) in fiscal year 2014. As of September 30, 2017, the total amount of unrecognized tax benefits that, if realized in a future period, would favorably affect the effective tax rate is \$13.7 million. Another \$85.5 million related to the 2037 Convertible Notes would increase additional paid-in capital. It is reasonably possible that changes to our 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 determined at this time.

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 Company is no longer subject to U.S. federal audits by taxing authorities for years through fiscal year 2013, U.S. state audits for years through fiscal year 2010 and tax audits in Ireland for years through fiscal year 2011.

Table of Contents

## 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. Approximate future minimum lease payments under non-cancelable operating leases are as follows:

Fiscal	(In thousands)
2018 (remaining six months)	\$ 2,916
2019	4,856
2020	6,680
2021	5,659
2022	5,696
Thereafter	29,444
Total	\$ 55,251

Aggregate future rental income to be received from owned property totaled \$9.2 million as of September 30, 2017. Rent expense, net of rental income, under all operating leases was \$900 thousand and \$2.1 million for the three and six months ended September 30, 2017, respectively. Rent expense, net of rental income, under all operating leases was \$1.3 million and \$2.5 million for the three and six months ended October 1, 2016, respectively. Rental income was not material for the second quarter and the first six months of fiscal years 2018 and 2017.

Other commitments as of September 30, 2017 totaled \$127.1 million and consisted of purchases of inventory and other non-cancelable purchase obligations related to subcontractors that manufacture silicon wafers and provide assembly and 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. As of September 30, 2017, the Company had \$35.3 million of non-cancelable license obligations to providers of electronic design automation software and hardware/software maintenance expiring at various dates through December 2019.

## 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 second quarter of fiscal year 2018 and the end of fiscal year 2017, the accrual balance of the product warranty liability was 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 our 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 July 17, 2014, a patent infringement lawsuit was filed by PLL Technologies, Inc. (PTI) against the Company in the U.S. District Court for the District of Delaware (PLL Technologies, Inc. v. Xilinx, Inc., Case No. 1:14-CV-00945). On April 28, 2015, the U.S. Patent Trial and Appeal Board (PTAB) granted Xilinx's request for inter partes review (IPR) with respect to all claims in the litigation. On May 5, 2015, the Court ordered the litigation be stayed pending final resolution of the IPR. On April 18, 2016, the PTAB issued a final written decision in which all of the asserted claims were found unpatentable. On June 14, 2016, PTI filed

21

---

## Table of Contents

notice of appeal from the final written decision. On June 13, 2017, the Federal Circuit affirmed the PTAB's findings of invalidity. On July 19, 2017, the U.S. District Court case was dismissed with prejudice.

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 the same date, the Company filed a complaint for declaratory judgment of patent non-infringement against IP Bridge in the U.S. District Court for the Northern District of California (Xilinx, Inc. v. Godo Kaisha IP Bridge 1, Case No. 5:17-cv-00509). The complaint filed by the Company pertained to twelve other patents and sought judgment of non-infringement by Xilinx, as well as costs, expenses and attorneys' fees. On June 15, 2017, IP Bridge granted Xilinx a royalty-free covenant not to sue for infringement of those twelve patents, and on June 16, 2017, the parties filed a stipulated dismissal without prejudice of the declaratory judgment action in California. The Company is unable to estimate its range of possible loss, if any, in the remaining action in Texas at this time.

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. The Company is unable to estimate its range of possible loss, if any, in this matter at this time.

The Company intends to continue to protect and defend our 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 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 the action in its entirety. The motions are not yet fully briefed and the Court has therefore not ruled on them. The Company intends to vigorously defend the case and is unable to estimate its range of possible loss, if any, in this matter at this time.

On April 4, 2017, Mountjoy Chilton Medley, LLP filed a third-party complaint against Xilinx and others in the U.S. District Court for the Middle District of Pennsylvania (Case No. 4:15-cv-01622-MWB). The complaint alleges that to the extent the third-party plaintiff is found liable, that the actions or inactions of Xilinx and others entitles the third-party plaintiff to apportionment of damages based on the allegations against Xilinx in the case filed by the Chapter 7 Trustee of Valley Forge Composite Technologies, Inc. On August 28, 2017, Xilinx, along with other third party defendants, filed a motion to dismiss the complaint. On October 10, 2017, the Court granted the motion to dismiss.

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.

Note 18. Goodwill and Acquisition-Related Intangibles

As of September 30, 2017, there have been no material changes to the Company's goodwill and acquisition-related intangibles since April 1, 2017.

Note 19. Subsequent Events

22

---



Table of Contents

On October 24, 2017, the Company's Board of Directors declared a cash dividend of \$0.35 per common share for the third quarter of fiscal year 2018. The dividend is payable on December 6, 2017 to stockholders of record on November 15, 2017.

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; and valuation of inventories, which impacts cost of revenues and gross margin. Our critical accounting policies also include: the assessment of impairment of long-lived assets, which impacts their valuation; the assessment of the recoverability of goodwill, which impacts goodwill impairment; 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 sheets; 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 April 1, 2017. 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: second quarter and first six months of fiscal year 2018 compared to the second quarter and first six months of fiscal year 2017

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

	Three Months Ended		Six Months Ended	
	September 30, 2017	October 1, 2016	September 30, 2017	October 1, 2016
Net revenues	100.0%	100.0 %	100.0%	100.0 %
Cost of revenues	29.8	30.4	30.5	29.8
Gross margin	70.2	69.6	69.5	70.2
Operating expenses:				
Research and development	25.5	24.5	25.2	24.1

Edgar Filing: XILINX INC - Form 10-Q

Selling, general and administrative	14.7	14.4	14.6	14.4
Amortization of acquisition-related intangibles	0.1	0.2	0.1	0.2
Total operating expenses	40.3	39.1	39.9	38.7
Operating income	29.9	30.5	29.6	31.5
Interest and other income (expense), net	0.3	(0.2 )	0.3	(0.5 )
Income before income taxes	30.2	30.3	29.9	31.0
Provision for income taxes	3.1	2.0	2.8	2.6
Net income	27.1	% 28.3	% 27.1	% 28.4 %

24

---

Table of Contents

## Net Revenues

We sell our products to global manufacturers of electronic products in end markets such as wireline and wireless communications, aerospace and defense, industrial, scientific and medical, audio, video and broadcast, and automotive. The vast majority of our net revenues are generated by sales of our semiconductor products, but we also generate sales from support products, which include configuration solutions, software and support/services. We classify our product offerings into two categories: Advanced Products and Core Products:

Advanced Products include our most recent product offerings and include the UltraScale+, UltraScale and 7-series product families.

Core Products include 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 year 2017, whereby we reclassified our product categories to be consistent with how these categories are analyzed and reviewed internally. Specifically, we grouped the products manufactured at the 28nm, 20nm and 16nm nodes into a category named Advanced Products while all other products are included in a category named Core Products.

Net revenues of \$619.5 million in the second quarter of fiscal year 2018 represented a 7% increase from the comparable prior year period of \$579.2 million. Net revenues from Advanced Products increased 21% in the second quarter of fiscal year 2018 versus the comparable prior year period, but the declines from our Core Products partially offset the increase. No end customer accounted for more than 10% of our net revenues for the second quarter and the first six months of fiscal years 2018 and 2017.

For the first six months of fiscal year 2018, approximately 52% of our net revenues were from products sold to distributors for subsequent resale to original equipment manufacturers (OEMs) or their subcontract manufacturers. As of September 30, 2017, we had \$70.2 million of deferred revenue and \$19.2 million of deferred cost of revenues recognized as a net \$51.0 million of deferred income on shipments to distributors. As of April 1, 2017, we had \$74.2 million of deferred revenue and \$19.6 million of deferred cost of revenues recognized as a net \$54.6 million of deferred income on shipments to distributors. The deferred income on shipments to distributors that will ultimately be recognized in our condensed consolidated statements of income will be different than the amount shown on the condensed consolidated balance sheets due to actual price adjustments issued to the distributors when the product is sold to their end customers.

## Net Revenues by Product

Net revenues by product categories for the second quarter and the first six months of fiscal years 2018 and 2017 were as follows:

(In millions)	Three Months Ended			Six Months Ended		
	September 30, 2017	Change	October 1, 2016	September 30, 2017	Change	October 1, 2016
Advanced Products	\$324.2	21	\$ 267.3	\$646.4	27	\$ 509.5
Core Products	295.3	(5 )	311.9	588.5	(9 )	644.7
Total net revenues	\$619.5	7	\$ 579.2	\$1,234.9	7	\$ 1,154.2

Net revenues from Advanced Products increased significantly in both the second quarter and the first six months of fiscal year 2018 compared to the comparable prior year periods. The increases for both periods were a result of sales

growth from our 28nm, 20nm and 16nm product families. We expect sales of Advanced Products to continue to grow as more customer programs enter into volume production with our 28nm, 20nm and 16nm products.

Net revenues from Core Products decreased in both the second quarter and the first six months of fiscal year 2018 from the comparable prior year periods. For both the second quarter and the first six months of fiscal year 2018, the decreases were largely due to decline in sales of our Virtex-5 and, to a lesser extent, our Virtex-6 product families.

Table of Contents

## Net Revenues by End Markets

Our end market revenue data is derived from our understanding of our end customers' primary markets. Net revenues by end markets are classified into the following three categories: Communications & Data Center; Industrial, Aerospace & Defense; and Broadcast, Consumer & Automotive. 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 second quarter and the first six months of fiscal years 2018 and 2017 were as follows:

(% of total net revenues)	Three Months Ended			Six Months Ended				
	September 30, 2017		October 1, 2016	September 30, 2017		October 1, 2016		
	Change	Dollars	%	Change	Dollars	%		
Communications & Data Center	37	% (5 )	41	%	39	% (3 )	43	%
Industrial, Aerospace & Defense	45	17	41		44	17	40	
Broadcast, Consumer & Automotive	18	12	18		17	9	17	
Total net revenues	100	% 7	100	%	100	% 7	100	%

Net revenues from Communications & Data Center decreased for the second quarter and the first six months of fiscal year 2018 from the comparable prior year periods. The decreases for both periods were primarily driven by lower sales from wireline, particularly in the North America region.

Net revenues from Industrial, Aerospace & Defense increased for the second quarter and the first six months of fiscal year 2018 from the comparable prior year periods. The increases for both periods were primarily due to higher sales from aerospace & defense and industrial, scientific & medical across all geographic regions. For the first six months of fiscal year 2018, sales to test & measurement also increased, driven by the North America and Japan regions.

Net revenues from Broadcast, Consumer & Automotive increased for the second quarter and the first six months of fiscal year 2018 from the comparable prior year periods. The increases were driven by higher sales across all sub-segments, particularly from consumer in the Asia Pacific region.

## Net Revenues by Geography

Geographic revenue information reflects the geographic location of the distributors, 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 second quarter and the first six months of fiscal years 2018 and 2017 were as follows:

(In millions)	Three Months Ended			Six Months Ended		
	September 30, 2017	Change	October 1, 2016	September 30, 2017	Change	October 1, 2016
North America	\$190.1	1	\$188.3	\$365.4	(2 )	\$374.6
Asia Pacific	249.5	12	222.4	516.5	14	451.9
Europe	121.6	4	117.2	240.5	6	226.6
Japan	58.3	14	51.3	112.5	11	101.1
Total net revenues	\$619.5	7	\$579.2	\$1,234.9	7	\$1,154.2

Net revenues in North America increased slightly in the second quarter of fiscal year 2018, but decreased in the first six months of fiscal year 2018, from the comparable prior year periods. The slight increase in the second quarter of fiscal year 2018 was primarily due to higher sales from aerospace & defense, but partially offset by a decrease in wireline. The decrease in the first six months of fiscal year 2018 was largely driven by lower sales from wireline, which more than offset the increase in sales from Industrial, Aerospace & Defense.

Net revenues in Asia Pacific increased in both the second quarter and the first six months of fiscal year 2018 from the comparable prior year periods. The increases were primarily due to higher sales from consumer and wireless communications, primarily in China and India.

Table of Contents

Net revenues in Europe increased in both the second quarter and the first six months of fiscal year 2018 from the comparable prior year periods. The increases in both periods were largely driven by higher sales from aerospace & defense and wireline & data center.

Net revenues in Japan increased in both the second quarter and the first six months of fiscal year 2018 from the comparable prior year periods. The increases for both periods were primarily driven by higher sales in Industrial, Aerospace & Defense and Broadcast, Consumer & Automotive. For the second quarter of fiscal year 2018, the increase was partially offset by a decline in sales from wireless.

## Gross Margin

(In millions)	Three Months Ended			Six Months Ended				
	September 2017	Change	October 1, 2016	September 2017	Change	October 1, 2016		
Gross margin	\$434.7	8	\$403.3	\$858.1	6	\$810.0		
Percentage of net revenues	70.2	%	69.6	%	69.5	%	70.2	%

Gross margin was higher by 0.6 percentage points in the second quarter of fiscal year 2018 compared to the same period last year. The increase was due primarily to upfront licensing costs in the second quarter of fiscal year 2017. For the first six months of fiscal year 2018, gross margin was lower by 0.7 percentage points, comparing to the same period last year, as the revenue mix shifted more to wireless and consumer with relatively lower margin, but this was partially offset by a decrease in manufacturing overhead expenses.

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. Advanced Products generally have lower gross margins than Core Products as they are in the early stages of their product life cycle and have higher unit costs associated with relatively lower volumes and early manufacturing maturity.

In order to compete effectively, we pass manufacturing cost reductions to our customers in the form of reduced prices to the extent that we can maintain acceptable margins. Price erosion is common in the semiconductor industry, as advances in both product architecture and manufacturing process technology permit continual reductions in unit cost. We have historically been able to offset much of this revenue decline in our mature products with increased revenues from newer products.

## Research and Development

(In millions)	Three Months Ended			Six Months Ended				
	September 2017	Change	October 1, 2016	September 2017	Change	October 1, 2016		
Research and development	\$158.0	11	\$141.8	\$311.0	12	\$277.9		
Percentage of net revenues	26	%	25	%	25	%	24	%

R&D spending increased \$16.2 million, or 11%, for the second quarter of fiscal year 2018 from the comparable prior year period. For the first six months of fiscal year 2018, R&D spending increased \$33.1 million, or 12%, from the comparable prior year period. The increases for both periods were primarily attributable to increases in headcount and



employee compensation (including stock-based compensation), as well as increased tape-out expenses, to support our next generation product development.

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 may also consider acquisitions to complement our strategy for technology leadership and engineering resources in critical areas.

Table of Contents

## Selling, General and Administrative

(In millions)	Three Months Ended			Six Months Ended		
	September 30, 2017	Change	October 1, 2016	September 30, 2017	Change	October 1, 2016
Selling, general and administrative	\$91.1	9	\$ 83.5	\$180.2	8	\$ 166.6
Percentage of net revenues	15	%	14	%	15	%

SG&A expenses were higher in both the second quarter and the first six months of fiscal year 2018, as compared to the comparable prior year periods. The increases for both periods were primarily due to higher employee compensation (including stock-based compensation) from increased headcount when compared with the prior year periods.

## Amortization of Acquisition-Related Intangibles

(In millions)	Three Months Ended			Six Months Ended		
	September 30, 2017	Change	October 1, 2016	September 30, 2017	Change	October 1, 2016
Amortization of acquisition-related intangibles	\$0.5	(59 )	\$ 1.2	\$1.2	(51 )	\$ 2.5
Percentage of net revenues	—	%	—	%	—	%

Amortization expense for both the second quarter and the first six months of fiscal year 2018 decreased from the comparable prior year periods as certain intangibles were fully amortized by fiscal year 2018.

## Stock-Based Compensation

(In millions)	Three Months Ended			Six Months Ended		
	September 30, 2017	Change	October 1, 2016	September 30, 2017	Change	October 1, 2016
Stock-based compensation included in:						
Cost of revenues	\$2.2	13	\$ 1.9	\$4.3	5	\$ 4.1
Research and development	20.1	22	16.5	37.6	19	31.6
Selling, general and administrative	14.1	25	11.4	26.5	13	23.5
	\$36.4	22	\$ 29.8	\$68.4	15	\$ 59.2

Stock-based compensation expense increased in both the second quarter and the first six months of fiscal year 2018 from the comparable prior year periods. The increases were primarily related to higher expenses associated with restricted stock units granted in the recent quarters, as more restricted stock units were granted, and were granted at a higher fair value.

## Interest and Other Income (Expense), Net

(In millions)	Three Months Ended			Six Months Ended		
	September 30, 2017	Change	October 1, 2016	September 30, 2017	Change	October 1, 2016
Interest and other income (expense), net	\$1.8	(259 )	\$(1.2 )	\$3.7	(164 )	\$(5.7 )
Percentage of net revenues	—	%	—	%	—	%

Our net interest and other income (expense) increased in both the second quarter and the first six months of fiscal year 2018 from the comparable prior year periods. The increases were primarily due to higher interest income from the investment portfolio, and to a lesser extent lower interest expenses from 2024 Notes and its related interest rate swap contracts as compared to the total interest expenses recognized from the 2017 Convertible Notes that matured in the first quarter of fiscal 2018.

Table of Contents

## Provision for Income Taxes

(In millions)	Three Months Ended			Six Months Ended		
	September 30, 2017	Change	October 1, 2016	September 30, 2017	Change	October 1, 2016
Provision for income taxes	\$ 19.5	70	\$ 11.5	\$ 34.5	15	\$ 30.0
Percentage of net revenues	3	%	2	%	3	%
Effective tax rate	10	%	7	%	9	%

The difference between the U.S. federal statutory tax rate of 35% and our effective tax rate in all periods was primarily due to income earned in lower tax rate jurisdictions for which no U.S. income tax has been provided, as we intend to permanently reinvest these earnings outside of the U.S.

The increase in the effective tax rate in the second quarter of fiscal year 2018 from the comparable prior year period was primarily due to a release of reserves for uncertain tax positions in fiscal year 2017. The increase in the effective tax rate was partially offset by an increase in excess tax benefits with respect to stock-based compensation in fiscal year 2018.

The increase in the effective tax rate in the first six months of fiscal year 2018 from the comparable prior year period was primarily due to a release of reserves for uncertain tax positions in fiscal year 2017 and an increase in reserves for uncertain tax positions in fiscal year 2018. The increase in the effective tax rate was partially offset by an increase in excess tax benefits with respect to stock-based compensation in fiscal year 2018.

## 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 as well as short-term and long-term investments as of September 30, 2017 and April 1, 2017 totaled \$3.66 billion and \$3.44 billion, respectively. As of September 30, 2017, we had cash, cash equivalents and short-term investments of \$3.56 billion and working capital of \$3.75 billion. As of April 1, 2017, cash, cash equivalents and short-term investments were \$3.32 billion and working capital was \$2.98 billion.

As of September 30, 2017, we had \$3.19 billion of cash, cash equivalents and short-term investments held by our non-U.S. jurisdictions. From a financial statement perspective, approximately \$1.24 billion of the \$3.19 billion held by our non-U.S. jurisdictions was available for use in the U.S. without incurring additional U.S. income taxes in excess of the amounts already accrued in our financial statements as of September 30, 2017. The remaining amount of non-U.S. cash, cash equivalents and short-term investments was permanently reinvested and, therefore, no U.S. current or deferred taxes was accrued on this amount, which is intended for investment in our operations outside the U.S. We believe our U.S. sources of cash and liquidity are sufficient to meet our business needs in the U.S. and do not expect that we will need to repatriate the funds we have designated as permanently reinvested outside the U.S. Under current tax laws, should our plans change and we were to choose to repatriate some or all of the funds we have designated as permanently reinvested outside the U.S., such amounts would be subject to U.S. income taxes and applicable non-U.S. income and withholding taxes.

Operating Activities —During the first six months of fiscal year 2018, our operations generated net positive cash flow of \$393.0 million, which was \$129.2 million lower than the \$522.2 million generated during the first six months of fiscal year 2017. The net cash provided by operations during the first six months of fiscal year 2018 was primarily from net income as adjusted for non-cash related items, a decrease in inventory and an increase in other accrued liabilities. These items were partially offset by increases in accounts receivable, prepaid expenses and other assets and decreases in accounts payable and income taxes payable. Accounts receivable increased by \$42.9 million to \$286.9 million compared to \$243.9 million at April 1, 2017. Days sales outstanding increased to 42 days at September 30, 2017 from 38 days at April 1, 2017, primarily due to timing of shipments and collections. Our inventory levels as of September 30, 2017 were \$11.6 million lower at \$215.4 million compared to \$227.0 million at April 1, 2017, and combined inventory days at Xilinx and distribution decreased to 116 days at September 30, 2017 from 127 days at April 1, 2017.

## Table of Contents

**Investing Activities** —Net cash used in investing activities was \$141.0 million during the first six months of fiscal year 2018, as compared to net cash provided by investing activities of \$22.5 million in the first six months of fiscal year 2017. Net cash used in investing activities during the first six months of fiscal year 2018 consisted primarily of \$110.4 million of net cash used in for purchase of available-for-sale securities, \$22.1 million net cash used in for purchases of property, plant and equipment and \$8.5 million used in other investing activities.

**Financing Activities** —Net cash used in financing activities was \$148.5 million in the first six months of fiscal year 2018, as compared to \$358.1 million in the first six months of fiscal year 2017. Net cash used in financing activities during the first six months of fiscal year 2018 consisted of \$457.9 million of cash repayment for 2017 Convertible Notes, \$237.5 million cash payment to repurchase common stock, \$174.3 million dividend payments to stockholders and \$42.1 million of payment for RSU withholdings, which were partially offset by \$745.2 million of cash receipts from issuance of long-term debt and \$19.4 million of proceeds from issuance of common stock under employee stock plans.

### 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 September 30, 2017 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 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 September 30, 2017, we had \$127.1 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 September 30, 2017, we also had \$35.3 million of non-cancelable license obligations to providers of electronic design automation software and hardware/software maintenance expiring at various dates through December 2019.

On May 30, 2017, we issued \$750.0 million principal amount of 2024 Notes with a maturity date on June 1, 2024. The 2024 Notes were offered to the public at a discounted price of 99.887% of par. Interest on the 2024 Notes is payable semi-annually on June 1 and December 1. As of September 30, 2017, we had \$750.0 million of the 2024 Notes outstanding. We also had \$500.0 million of 2019 Notes and \$500.0 million of 2021 Notes outstanding as of September 30, 2017. The 2019 Notes and 2021 Notes require payment of interest semiannually on March 15 and September 15. See "Note 10. Debt and Credit Facility" to our condensed consolidated financial statements, included in Part 1. "Financial Information," for additional information about our debentures.

As of September 30, 2017, \$5.3 million of liabilities for uncertain tax positions and related interest and penalties were classified as long-term income taxes payable in the condensed consolidated balance sheets. 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 September 30, 2017, we did not have any significant off-balance-sheet arrangements, as defined in Item 303(a)(4)(ii) of 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 that, upon certain conditions, may be extended by an additional \$150.0 million, 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 credit facility will not be impacted by adverse conditions in the financial markets. Our credit facility is not reliant upon a single bank. There have been no borrowings to date under our existing revolving credit facility.

During the first six months of fiscal year 2018, we repurchased 3.7 million shares of common stock in the open market and through an accelerated share repurchase agreement with an independent financial institution for a total of \$237.5 million. During the first six months of fiscal year 2017, we repurchased 4.1 million shares of common stock in the open market for a total of \$200.1 million. On October 19, 2016, we announced our plan to utilize the \$1.00 billion repurchase authorization under the 2016 Repurchase Program over the next several quarters. As of September 30, 2017, we have \$444.6 million left available for future purchase.

Table of Contents

During the first six months of fiscal year 2018, we paid \$174.3 million in cash dividends to stockholders, representing \$0.70 per common share. During the first six months of fiscal year 2017, we paid \$167.5 million in cash dividends to stockholders, representing \$0.66 per common share. On October 24, 2017, our Board of Directors declared a cash dividend of \$0.35 per common share for the third quarter of fiscal year 2018. The dividend is payable on December 6, 2017 to stockholders of record on November 15, 2017. 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 of this Form 10-Q and below could affect our cash positions adversely.



Table of Contents

## Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

## Interest Rate Risk

Our exposure to interest rate risk relates primarily to our investment portfolio, which consists of fixed income securities with a fair value of approximately \$3.59 billion as of September 30, 2017, 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 municipal bonds, mortgage-backed securities, asset-backed securities, financial institution securities, non-financial institution securities, U.S. and foreign government and agency securities, bank loans, 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 September 30, 2017 would have affected the fair value of our investment portfolio by approximately \$55.0 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 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 September 30, 2017 and April 1, 2017, we had the following outstanding forward currency exchange contracts (in notional amount):

(In millions and U.S. dollars)	September 30, 2017	April 1, 2017
Singapore Dollar	\$ 23.7	\$22.0
Euro	25.2	18.6
Indian Rupee	47.1	31.1
British Pound	8.6	10.8

Japanese Yen	4.1	3.8
	\$ 108.7	\$86.3

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 August 2019. The majority of net unrealized gains, which approximate the fair market value of the outstanding forward currency exchange contracts, are expected to be realized into net income within the next two years.

Table of Contents

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 on a monthly basis with gains and losses on revaluation reflected in net income. A hypothetical 10% favorable or unfavorable change in foreign currency exchange rates at September 30, 2017 would have affected the annualized foreign-currency-denominated operating expenses of our foreign subsidiaries by less than \$11.0 million. In addition, a hypothetical 10% favorable or unfavorable change in foreign currency exchange rates compared to rates at September 30, 2017 would have affected the value of foreign-currency-denominated cash and investments by less than \$6.0 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 September 30, 2017 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.

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 TSMC and 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 by periodic negotiations between us and 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.

35

---

Table of Contents

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. Furthermore, we cannot guarantee the foundries will be able to manufacture sufficient quantities of our products or that they will continue to manufacture a product for the full life of the product. 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. 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. We may also experience supply shortages due to very strong demand for our products and a surge in demand for semiconductors in general, which may lead to tightening of foundry capacity across the industry. 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.

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. UMC's and TSMC's foundries in Taiwan and our assembly and test partners in other regions as well as many of our operations in California are centered in areas that have been seismically active in the recent past and some areas have been affected by other natural disasters such as typhoons. Any catastrophic event in these locations will disrupt our operations, including our manufacturing activities, and our insurance may not cover losses resulting from such disruptions of our operations. This type of disruption could result in our inability to manufacture or ship products, 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 foundry 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. Disruption of operations at these foundries for any reason, including 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 could cause delays in shipments of our products, and could have a material adverse effect on our results of operations. 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.

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.

As a result of the 2008 global financial crisis, global consumer confidence eroded amidst concerns over declining asset values, inflation, volatility in energy costs, geopolitical issues, the availability and cost of credit, rising unemployment, and the stability and solvency of financial institutions, financial markets, businesses and sovereign nations, among other concerns. These concerns slowed global economic growth and resulted in recessions in numerous countries, including many of those in North America, Europe and Asia. The financial condition of certain sovereign nations, particularly in Europe, is of continuing concern as the sovereign debt crisis remains unresolved. These weak economic conditions resulted in reduced customer demand and had a negative impact on our results of operations in some parts of fiscal year 2012 and fiscal year 2013. If weak economic conditions return, 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.

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 to this, 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. 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 PLDs compete in the 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 PLD competitors, including Intel, Lattice and Microsemi, and from new market entrants. In addition, competition from the ASIC market and from the 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 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 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.

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

Table of Contents

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, when certain suppliers 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.

Resale of product through Avnet accounted for 42% of our worldwide net revenues in the first six months of fiscal year 2018 and as of September 30, 2017, Avnet accounted for 67% 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 result in the insolvency of certain distributors, the inability of distributors to obtain credit to finance the purchase of our products, or cause distributors to delay payment of their obligations to us and increase our credit risk exposure. Our business could be harmed if the financial health of these distributors impairs their performance and we are 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 prolonged inability to obtain wafers with competitive performance and cost attributes, adequate yields or timely delivery, any disruption in assembly, test or shipment services, delays in stabilizing manufacturing processes and ramping up volume for new products, transitions to new service providers or any 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.

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

A number of factors, including yield, wafer pricing, product mix, market acceptance of our new products, competitive pricing dynamics, licensing costs, geographic and/or market segment pricing strategies can cause our gross margins to fluctuate. 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 an increased impact on our inventory valuation, which would then impact our operating results.

Table of Contents

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, 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.

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. Our international operations have grown because we have established certain operations and administrative functions outside the U.S. 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 over one-half of our revenues from international sales, primarily in the Asia Pacific region, Europe and Japan. Past economic weaknesses in these markets adversely affected revenues. 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 to our business, increased volatility could impact our European and Japanese customers. Currency instability and volatility and disruptions in the credit and capital markets including as a result of the United Kingdom referendum on June 23, 2016, in which voters approved an exit from the European Union (commonly referred to as "Brexit") may increase credit risks for some of our customers and may impair our customers' ability to repay existing obligations. 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, and international sanctions or other diplomatic actions (potentially including sanctions adopted or under consideration by the U.S. or 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 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. For example, on March 8, 2016, the U.S. Department of Commerce added ZTE Corporation (ZTE) to its "Entity List" and placed certain export restrictions on ZTE and its suppliers. Although interim relief was provided until the U.S. Department of Commerce and ZTE reached a settlement effective on March 29, 2017, which removed ZTE from the "Entity List," had ZTE not been removed, the restrictions could have caused a material adverse effect on our business, financial condition and/or operating results. Additional factors that could adversely affect us due to our international operations include rising oil prices and increased costs of natural resources. Moreover, our financial condition and results of operations could be affected in the event of political conflicts or economic crises in countries where our main wafer providers, warehouses, end customers and contract manufacturers who provide assembly and test services worldwide, are located. Adverse change to the circumstances or conditions of our international business operations, including instability and uncertainty as a result of Brexit, could have a material adverse effect on our business.

Table of Contents

We are exposed to fluctuations in interest rates and changes in credit rating and in the market values of our portfolio investments which could have a material adverse impact on our financial condition and results of operations.

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 rating 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 is judged to be other than temporary. Furthermore, we may suffer losses in principal 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 and 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 our indemnities or us in the future. 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.

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. 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. 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.

We rely on information technology (IT) systems, and failure of these systems to function properly or unauthorized access to our systems could result in business disruption.

We rely in part on various IT systems to manage our operations, including 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 and management information on a timely and accurate basis. 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. We also may be subject to unauthorized access to our IT systems through a security breach or cyber attack. We experience cyber attacks of varying degrees on an ongoing basis. 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. 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 systems. We seek 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 and sabotage our systems change frequently, we may be unable to anticipate these techniques or to implement adequate protections. Our business could be significantly harmed, and we could be subject to third party claims in the event of such a security breach. Our IT systems are also linked to the IT systems of customers, suppliers, and distribution partners and those links provide critical information we use to manage our operations, including information used for financial reporting. 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 that of our IT systems.



Table of Contents

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 Act). Our controls necessary for continued compliance with the 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 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 restructurings which 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 lose 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.

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. For example, in December 2013, we entered into a Settlement and License Agreement with PACT XPP Technologies, AG (PACT) in which the parties agreed to dismiss with prejudice all outstanding patent litigation among us, Avnet and PACT. As part of the settlement, we agreed to pay PACT a lump sum of \$33.5 million. Certain other claims involving the Company are not yet resolved, including those that are discussed under "Legal Proceedings" included in Part II. Item 1 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. Should we fail to prevail in certain matters, or should several of these matters be resolved against us in the same reporting period, 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 found in existing or new products. These 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, 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.

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.

## Table of Contents

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 most 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, taxes and stock-based compensation. We base our estimates on historical experience, input from outside experts and on 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 perhaps 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.

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 those companies who use "conflict" minerals mined from the Democratic Republic of Congo and adjoining countries in their products, regardless of whether such products are manufactured 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, we may encounter challenges to satisfy those customers who require that all of the components of our products are certified as conflict free.

Table of Contents

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. A significant portion of our earnings are earned by our subsidiaries outside the U.S. In addition to providing for U.S. income taxes on earnings from the U.S., we provide for U.S. income taxes on the earnings of foreign subsidiaries unless the subsidiaries' earnings are considered permanently reinvested outside the U.S. If certain foreign earnings previously treated as permanently reinvested are repatriated, the related U.S. tax on such repatriated earnings could negatively impact our effective tax rates, financial condition and results of operations.

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. Notably, the current U.S. administration and certain members of Congress have made public statements indicating that corporate tax reform is a priority. Changes to U.S. tax laws could materially affect the tax treatment of our domestic and foreign earnings.

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 position and results of operations.

Considerable amounts of our common shares are available for issuance under our equity incentive plans, warrants related to the 2017 Convertible Notes, and significant issuances in the future may adversely impact the market price of our common shares.

As of September 30, 2017 we had 2.00 billion authorized common shares, of which 248.6 million shares were outstanding. In addition, 29.0 million common shares were reserved for issuance pursuant to our equity incentive plans and Employee Stock Purchase Plan and 15.8 million common shares were reserved for issuance upon exercise of warrants related to the 2017 Convertible Notes. We issued a total of 9.0 million common shares in connection with the conversion of the 2017 Convertible Notes, which matured on June 15, 2017. The availability of substantial amounts of our common shares resulting from the exercise or settlement of equity awards outstanding under our equity incentive plans, warrants related to the 2017 Convertible Notes or the conversion that occurred prior to the maturity of our 2017 Convertible Notes, which were or would in the future be dilutive to existing stockholders, could adversely affect the prevailing market price of our common shares 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 September 30, 2017 was \$1.75 billion (principal amount), which consists of \$500.0 million in aggregate principal amount of our 2019 Notes, \$500.0 million in aggregate principal amount of our 2021 Notes and \$750.0 million in aggregate principal amount of our 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;
- increase our vulnerability to the impact of adverse economic and industry conditions; and
- require us to repatriate off-shore cash to the U.S. at unfavorable tax rates.

## Table of Contents

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.

The warrant transactions related to our 2017 Convertible Notes may affect the value of our common stock.

To hedge against potential dilution upon conversion of the 2017 Convertible Notes, we purchased call options on our common stock from the hedge counterparties. These call options were fully settled as of the maturity of the 2017 Convertible Notes on June 15, 2017. We also sold warrants to the hedge counterparties, which could separately have a dilutive effect on our earnings per share to the extent that the market price per share of our common stock exceeds the applicable strike price of the warrants of \$40.26 per share. A portion of these warrants were exercised and settled during the second quarter of fiscal 2017, and the remainder will expire and settle through November 2017.

As the hedge counterparties and their respective affiliates modify hedge positions, they may enter or unwind various derivatives with respect to our common stock and/or purchase or sell our common stock in secondary market transactions. This activity also could affect the market price of our common stock.

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;
- 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 be required to recognize a loss on any or all of our strategic investments; 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.



Table of Contents

## Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

On May 16, 2016, the Board authorized 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 September 30, 2017, we have used \$555.4 million of the \$1.00 billion authorized under the 2016 Repurchase Program, leaving \$444.6 million available for future purchases.

The following table summarizes our repurchase of our common stock during the second quarter of fiscal year 2018:

(In thousands, except per share amounts)	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Program	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Program
July 2, 2017 to August 5, 2017	537	\$ 64.73	537	\$ 580,341
August 6, 2017 to September 2, 2017	1,121	\$ 65.12	1,121	\$ 507,342
September 3, 2017 to September 30, 2017	963	\$ 65.12	963	\$ 444,617
Total for the Quarter	2,621		2,621	

## Item 6. Exhibits

Exhibit No.	Exhibit Title	Incorporated by Reference				Filed Herewith
		Form	File No.	Exhibit	Filing Date	
4.1	<u>Third Supplemental Indenture, dated as of August 31, 2017, between the Company and U.S. Bank National Association, as trustee</u>	8-K	000-18548	99.1	9/1/2017	
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

Edgar Filing: XILINX INC - Form 10-Q

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.	X

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

45

---

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: October 26, 2017 /s/ Lorenzo A. Flores  
Lorenzo A. Flores  
Senior Vice President  
and Chief Financial Officer  
(as principal accounting and financial  
officer and on behalf of Registrant)