XILINX INC
Form 10-Q
August 09, 2010

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

(Mark One)

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

For the quarterly period ended July 3, 2010

or

o **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 þ No o

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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer þ   Accelerated filer o   Non-accelerated filer o   Smaller reporting company o

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

Shares outstanding of the registrant s common stock:

Class	Shares Outstanding as of July 23, 2010

Common Stock, $.01 par value	258,831,177

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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 July 3, 2010	June 27, 2009
Net revenues	$ 594,737	$ 376,235
Cost of revenues	208,176	143,822
Gross margin	386,561	232,413
Operating expenses:		
Research and development	94,484	83,233
Selling, general and administrative	84,058	73,556
Amortization of acquisition-related intangibles		2,493
Restructuring charges		15,771
Total operating expenses	178,542	175,053
Operating income	208,019	57,360
Interest and other expense, net	(5,130)	(10,910)
Income before income taxes	202,889	46,450
Provision for income taxes	44,302	8,444
Net income	$ 158,587	$ 38,006
Net income per common share:		
Basic	$ 0.58	$ 0.14
Diluted	$ 0.58	$ 0.14
Cash dividends declared per common share	$ 0.16	$ 0.14
Shares used in per share calculations:		
Basic	272,097	275,523
Diluted	275,541	276,258

See notes to condensed consolidated financial statements.

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XILINX, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except par value amounts)	July 3, 2010 (Unaudited)	April 3, 2010*
ASSETS		
Current assets:		
Cash and cash equivalents	$ 912,445	$ 1,031,457
Short-term investments	631,220	355,148
Accounts receivable, net	355,406	262,735
Inventories	151,630	130,628
Deferred tax assets	102,075	101,126
Prepaid expenses and other current assets	69,396	25,972
Total current assets	2,222,172	1,907,066
Property, plant and equipment, at cost	727,654	714,905
Accumulated depreciation and amortization	(355,700)	(349,027)
Net property, plant and equipment	371,954	365,878
Long-term investments	580,386	582,202
Goodwill	117,955	117,955
Other assets	180,537	211,217
Total Assets	$ 3,473,004	$ 3,184,318
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 122,362	$ 96,169
Accrued payroll and related liabilities	111,066	114,663
Income taxes payable	8,012	14,452
Deferred income on shipments to distributors	74,207	80,132
Other accrued liabilities	57,445	51,745
Total current liabilities	373,092	357,161
Convertible debentures	849,505	354,798
Deferred tax liabilities	322,664	294,149
Long-term income taxes payable	59,141	56,248
Other long-term liabilities	1,479	1,492
Commitments and contingencies		

Stockholders equity:		
Preferred stock, $.01 par value (none issued)		
Common stock, $.01 par value	2,580	2,735
Additional paid-in capital	976,584	1,102,411
Retained earnings	886,835	1,016,545
Accumulated other comprehensive income (loss)	1,124	(1,221)
Total stockholders equity	1,867,123	2,120,470
Total Liabilities and Stockholders Equity	$ 3,473,004	$ 3,184,318

* Derived from audited financial statements

See notes to condensed consolidated financial statements.

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

(In thousands)	Three Months Ended July 3, 2010	Three Months Ended June 27, 2009
Cash flows from operating activities:		
Net income	$ 158,587	$ 38,006
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	12,191	13,009
Amortization	1,743	5,307
Stock-based compensation	15,120	13,729
Net (gain) loss on sale of available-for-sale securities	(548)	66
Amortization of debt discount on convertible debentures	2,063	947
Derivatives revaluation and amortization	484	(723)
Tax benefit from exercise of stock options	188	216
(Excess) reduction of tax benefit from stock-based compensation	(1,021)	16,492
Changes in assets and liabilities:		
Accounts receivable, net	(92,671)	20,460
Inventories	(20,966)	18,744
Deferred income taxes	29,159	9,863
Prepaid expenses and other current assets	(41,291)	(22,201)
Other assets	35,929	33,910
Accounts payable	26,193	20,247
Accrued liabilities (including restructuring activities)	(10,646)	17,419
Income taxes payable	(3,547)	(25,891)
Deferred income on shipments to distributors	(5,925)	(12,633)
Net cash provided by operating activities	105,042	146,967
Cash flows from investing activities:		
Purchases of available-for-sale securities	(583,707)	(436,610)
Proceeds from sale and maturity of available-for-sale securities	327,664	120,097
Purchases of property, plant and equipment	(18,267)	(4,714)
Other investing activities	(1,000)	(716)
Net cash used in investing activities	(275,310)	(321,943)
Cash flows from financing activities:		
Repurchases of common stock	(433,333)	
Proceeds from issuance of common stock through various stock plans	4,796	436
Proceeds from issuance of convertible debts, net of issuance costs	588,000	
Purchase of call options	(112,319)	
Proceeds from issuance of warrants	46,908	
Payment of dividends to stockholders	(43,817)	(38,574)
Excess (reduction) of tax benefit from stock-based compensation	1,021	(16,492)

Net cash provided by (used in) financing activities	51,256	(54,630)
Net decrease in cash and cash equivalents	(119,012)	(229,606)
Cash and cash equivalents at beginning of period	1,031,457	1,065,987
Cash and cash equivalents at end of period	$ 912,445	$ 836,381
Supplemental disclosure of cash flow information:		
Income taxes paid, net of refunds	$ 18,796	$ 16,991

See notes to condensed consolidated financial statements.

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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 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 3, 2010. 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 April 2, 2011 or any future period.

The Company uses a 52- to 53-week fiscal year ending on the Saturday nearest March 31. Fiscal 2011 is a 52-week year ending on April 2, 2011. Fiscal 2010, which ended on April 3, 2010, was a 53-week fiscal year. The third quarter of fiscal 2010 was a 14-week quarter ended on January 2, 2010. The quarters ended July 3, 2010 and June 27, 2009 each included 13 weeks.

Note 2. Recent Accounting Pronouncements

In October 2009, the Financial Accounting Standards Board (FASB) issued the authoritative guidance to update the accounting and reporting requirements for revenue arrangements with multiple deliverables. This guidance established a selling price hierarchy, which allows the use of an estimated selling price to determine the selling price of a deliverable in cases where neither vendor-specific objective evidence nor third-party evidence is available. This guidance is to be applied prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010, which for the Company is its fiscal 2012. Early adoption is permitted, and if this update is adopted early in other than the first quarter of an entity s fiscal year, then it must be applied retrospectively to the beginning of that fiscal year. The Company is currently assessing the impact of the adoption on its consolidated financial statements.

In October 2009, the FASB issued the authoritative guidance that clarifies which revenue allocation and measurement guidance should be used for arrangements that contain both tangible products and software, in cases where the software is more than incidental to the tangible product as a whole. More specifically, if the software sold with or embedded within the tangible product is essential to the functionality of the tangible product, then this software as well as undelivered software elements that relate to this software are excluded from the scope of existing software revenue guidance. This guidance is to be applied prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010, which for the Company is its fiscal 2012. Early adoption is permitted, and if this update is adopted early in other than the first quarter of an entity s fiscal year, then it must be applied retrospectively to the beginning of that fiscal year. The Company is currently assessing the impact of the adoption on its consolidated financial statements.

In January 2010, the FASB issued amended standards that require additional disclosures about inputs and valuation techniques used to measure fair value as well as disclosures about significant transfers, beginning in the Company s fourth quarter of fiscal 2010. Additionally, these amended standards require presentation of disaggregated activity within the reconciliation for fair value measurements using significant unobservable inputs (Level 3), beginning in the Company s first quarter of fiscal 2012. The Company does not expect these new standards to have significant impacts on the Company s consolidated financial statements.

In April 2010, the FASB issued the authoritative guidance on milestone method of revenue recognition. Under the new guidance, an entity can recognize revenue from consideration that is contingent upon achievement of a milestone in the period in which the milestone is achieved only if the milestone meets all criteria to be considered substantive. This guidance is to be applied prospectively for milestones achieved in fiscal years, and interim period within those years, beginning on or after June 15, 2010, which for the Company is its fiscal 2012. Early adoption is permitted, and if this update is adopted early in other than the first quarter of an entity s fiscal year, then it must be applied retrospectively to the beginning of that fiscal year. The Company is currently assessing the impact of the adoption 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 substantial majority of the Company s products worldwide. As of July 3, 2010 and April 3, 2010, Avnet accounted for 75% and 83% of the Company s total accounts receivable, respectively. Resale of product through Avnet accounted for 52% of the Company s worldwide net revenues in the first quarter of fiscal 2011 and 2010. The percentage of accounts receivable due from Avnet and the percentage of worldwide net revenues from Avnet are consistent with historical patterns.

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 net revenues for any of the periods presented.

The Company mitigates concentrations of credit risk in its investments in debt securities by currently investing more than 94% of its portfolio in AA or higher grade securities as rated by Standard & Poor s or Moody s Investors Service. The Company s methods to arrive at investment decisions are not solely based on the rating agencies credit ratings. Xilinx also performs additional credit due diligence and conducts regular portfolio credit reviews, including a review of counterparty credit risk related to the Company s forward currency exchange and interest rate swap contracts. Additionally, Xilinx limits its investments in the debt securities of a single issuer based upon the issuer s credit rating and attempts to further mitigate credit risk by diversifying risk across geographies and type of issuer.

As of July 3, 2010, approximately 3% of the Company s $2.06 billion investment portfolio consisted of student loan auction rate securities and all of these securities are rated AAA with the exception of $8.6 million that were downgraded to an A rating during fiscal 2009. More than 98% of the underlying assets that secure these securities are pools of student loans originated under the Federal Family Education Loan Program (FFELP), which are substantially guaranteed by the U.S. Department of Education. These securities experienced failed auctions in the fourth quarter of fiscal 2008 due to liquidity issues in the global credit markets. In a failed auction, the interest rates are reset to a maximum rate defined by the contractual terms for each security. The Company has collected and expects to collect all interest payable on these securities when due. During the first quarter of fiscal 2011, $450 thousand of these student loan auction rate securities were redeemed for cash by the issuers at par value. Because there can be no assurance of a successful auction in the future, the student loan auction rate securities are classified as long-term investments on the consolidated balance sheets. The maturity dates range from March 2023 to November 2047.

As of July 3, 2010, approximately 22% of the portfolio consisted of mortgage-backed securities. All of the mortgage-backed securities in the investment portfolio are AAA rated and were issued by U.S. government-sponsored enterprises and agencies.

The global credit and capital markets have continued to experience adverse conditions that have negatively impacted the values of various types of investment and non-investment grade securities, and have experienced volatility and disruption due to instability in the global financial system, uncertainty related to global economic conditions and concerns regarding sovereign financial stability. While general conditions in the global credit markets have improved, there is a risk that the Company 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. See Note 5. Financial Instruments for a table of the Company s available-for-sale securities.

Note 4. Fair Value Measurements

The 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 analyses. 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. For certain other securities, such as student loan auction rate securities, the Company performs its own valuation analysis using a discounted cash flow pricing model.

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The Company validates the consensus prices by taking random samples from each asset type and corroborating those prices using reported trade activity, benchmark yield curves, binding broker/dealer quotes or other relevant price information. There have not been any changes to the Company s fair value methodology during the first quarter of fiscal 2011 and the Company did not adjust or override any fair value measurements as of July 3, 2010.

Fair Value Hierarchy

The measurements of fair value were established based on a fair value hierarchy that prioritizes the utilized inputs. This hierarchy requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. 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. Treasury 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 bank certificates of deposit, commercial paper, corporate bonds, municipal bonds, U.S. agency securities, foreign government and agency securities, floating-rate notes and mortgage-backed securities. The Company s Level 2 assets and liabilities include foreign currency forward contracts and interest rate swaps.

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 s Level 3 assets and liabilities include student loan auction rate securities and the embedded derivative related to the Company s debentures.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

In instances where the inputs used to measure fair value fall into different levels of the fair value hierarchy, the fair value measurement has been determined based on the lowest level input that is significant to the fair value measurement in its entirety. The Company s assessment of the significance of a particular item to the fair value measurement in its entirety requires judgment, including the consideration of inputs specific to the asset or liability.

The following tables present information about the Company s assets and liabilities measured at fair value on a recurring basis as of July 3, 2010 and April 3, 2010:

	July 3, 2010			
(In thousands)	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Assets:				
Money market funds	$ 325,681	$	$	$ 325,681
Bank certificates of deposit		59,974		59,974
Commercial paper		421,308		421,308
Corporate bonds		529		529
Auction rate securities			63,042	63,042

Municipal bonds				8,809				8,809
U.S. government and agency securities		49,991		73,524				123,515
Foreign government and agency securities				517,921				517,921
Floating rate notes				82,474				82,474
Mortgage-backed securities				454,524				454,524
Interest rate swaps, net				44				44
Total assets measured at fair value	$	375,672	$	1,619,107	$	63,042	$	2,057,821
Liabilities:								
Foreign currency forward contracts (net)	$		$	632	$		$	632
Convertible debentures embedded derivative						1,317		1,317
Total liabilities measured at fair value	$		$	632	$	1,317	$	1,949
Net assets measured at fair value	$	375,672	$	1,618,475	$	61,725	$	2,055,872

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	April 3, 2010			
(In thousands)	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Assets:				
Money market funds	$ 138,738	$	$	$ 138,738
Bank certificates of deposit		59,996		59,996
Commercial paper		437,790		437,790
Corporate bonds		538		538
Auction rate securities			61,644	61,644
Municipal bonds		9,703		9,703
U.S. government and agency securities	49,995	71,961		121,956
Foreign government and agency securities		488,845		488,845
Floating rate notes		112,430		112,430
Mortgage-backed securities		442,199		442,199
Total assets measured at fair value	$ 188,733	$ 1,623,462	$ 61,644	$ 1,873,839
Liabilities:				
Foreign currency forward contracts (net)	$	$ 1,477	$	$ 1,477
Convertible debentures embedded derivative			848	848
Total liabilities measured at fair value	$	$ 1,477	$ 848	$ 2,325
Net assets measured at fair value	$ 188,733	$ 1,621,985	$ 60,796	$ 1,871,514

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):

	Three Months Ended	
(In thousands)	July 3, 2010	June 27, 2009
Balance as of beginning of period	$ 60,796	$ 92,736
Total realized and unrealized gains (losses):		
Included in interest and other expense, net	(469)	738
Included in accumulated other comprehensive income (loss)	1,848	3,429
Net settlements (1)	(450)	(750)
Balance as of end of period	$ 61,725	$ 96,153

(1) During the three months ended July 3, 2010 and June 27, 2009, $450 thousand and $750 thousand of student loan auction rate securities, respectively, were redeemed for cash at par value.

The amount of total gains included in net income attributable to the change in unrealized gains or losses relating to assets and liabilities still held as of the end of the period was as follows: