XILINX INC
Form 10-Q
October 28, 2015

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

FORM 10-Q
(Mark One)

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

For the quarterly period ended September 26, 2015

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 (State or other jurisdiction of incorporation or organization)	77-0188631 (I.R.S. Employer Identification No.)
2100 Logic Drive, San Jose, California (Address of principal executive offices)	95124 (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 x 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 x No ¨
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 x	Accelerated filer ¨

Non-accelerated filer ¨ Smaller reporting company ¨

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

Shares outstanding of the registrant's common stock:

Class	Shares Outstanding as of October 16, 2015
Common Stock, $.01 par value	256,975,016

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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 September 26, 2015	Three Months Ended September 27, 2014	Six Months Ended September 26, 2015	Six Months Ended September 27, 2014
Net revenues	$527,572	$604,262	$1,076,580	$1,216,895
Cost of revenues	157,640	169,617	317,594	358,806
Gross margin	369,932	434,645	758,986	858,089
Operating expenses:				
Research and development	130,220	138,335	256,868	260,348
Selling, general and administrative	84,761	93,883	166,904	186,396
Amortization of acquisition-related intangibles	1,769	2,378	3,538	4,796
Total operating expenses	216,750	234,596	427,310	451,540
Operating income	153,182	200,049	331,676	406,549
Interest and other expense, net	9,213	5,731	19,740	11,953
Income before income taxes	143,969	194,318	311,936	394,596
Provision for income taxes	16,671	22,802	36,923	49,469
Net income	$127,298	$171,516	$275,013	$345,127
Net income per common share:				
Basic	$0.49	$0.64	$1.07	$1.29
Diluted	$0.48	$0.62	$1.03	$1.24
Cash dividends per common share	$0.31	$0.29	$0.62	$0.58
Shares used in per share calculations:				
Basic	257,640	265,942	257,744	267,098
Diluted	266,046	275,800	268,070	278,784

See notes to condensed consolidated financial statements.

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

	Three Months Ended		Six Months Ended	
(In thousands)	September 26, 2015	September 27, 2014	September 26, 2015	September 27, 2014
Net income	$127,298	$171,516	$275,013	$345,127
Other comprehensive income (loss), net of tax:				
Change in net unrealized gains (losses) on available-for-sale securities	(253)	(3,728)	(5,180)	4,231
Reclassification adjustment for gains on available-for-sale securities	(18)	(927)	(196)	(1,318)
Change in net unrealized losses on hedging transactions	(2,496)	(3,602)	(378)	(3,060)
Reclassification adjustment for (gains) losses on hedging transactions	2,071	(211)	3,944	(1,018)
Cumulative translation adjustment, net	(623)	(578)	(1,546)	(407)
Other comprehensive loss	(1,319)	(9,046)	(3,356)	(1,572)
Total comprehensive income	$125,979	$162,470	$271,657	$343,555

See notes to condensed consolidated financial statements.

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XILINX, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except par value amounts)	September 26, 2015 (unaudited)	March 28, 2015 [1]
ASSETS		
Current assets:		
Cash and cash equivalents	$760,611	$892,572
Short-term investments	2,535,173	2,410,489
Accounts receivable, net	282,627	246,615
Inventories	212,973	231,328
Deferred tax assets	100,294	79,519
Prepaid expenses and other current assets	89,483	74,528
Total current assets	3,981,161	3,935,051
Property, plant and equipment, at cost	809,662	804,623
Accumulated depreciation and amortization	(522,285)	(503,585)
Net property, plant and equipment	287,377	301,038
Long-term investments	235,922	266,902
Goodwill	159,296	159,296
Acquisition-related intangibles, net	9,214	12,752
Other assets	217,380	223,026
Total Assets	$4,890,350	$4,898,065
LIABILITIES, TEMPORARY EQUITY AND STOCKHOLDERS’ EQUITY		
Current liabilities:		
Accounts payable	$75,279	$80,113
Accrued payroll and related liabilities	154,876	156,600
Income taxes payable	6,657	19,693
Deferred income on shipments to distributors	81,707	66,071
Other accrued liabilities	50,243	64,676
Current portion of long-term debt	581,580	576,053
Total current liabilities	950,342	963,206
Long-term debt	995,333	994,839
Deferred tax liabilities	308,662	289,868
Long-term income taxes payable	13,033	13,245
Other long-term liabilities	1,311	1,366
Commitments and contingencies	—	—
Temporary equity (Note 10)	18,420	23,947
Stockholders' equity:		
Preferred stock, $.01 par value (none issued)	—	—
Common stock, $.01 par value	2,569	2,583
Additional paid-in capital	683,140	653,882
Retained earnings	1,932,046	1,966,278
Accumulated other comprehensive loss	(14,506)	(11,149)
Total stockholders’ equity	2,603,249	2,611,594
Total Liabilities, Temporary Equity and Stockholders’ Equity	$4,890,350	$4,898,065

[1] 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)	Six Months Ended September 26, 2015	September 27, 2014
Cash flows from operating activities:		
Net income	$275,013	$345,127
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	25,725	27,146
Amortization	8,708	10,508
Stock-based compensation	53,001	50,846
Net gain on sale of available-for-sale securities	(618)	(2,412)
Amortization of debt discounts	6,019	6,008
Provision for deferred income taxes	1,129	26,304
Excess tax benefit from stock-based compensation	(10,455)	(13,775)
Changes in assets and liabilities:		
Accounts receivable, net	(36,013)	(22,796)
Inventories	18,119	(28,409)
Prepaid expenses and other current assets	(9,051)	(13,250)
Other assets	(3,106)	(2,871)
Accounts payable	(4,834)	(44,006)
Accrued liabilities	(11,909)	7,066
Income taxes payable	(10,481)	(17,237)
Deferred income on shipments to distributors	15,636	5,751
Net cash provided by operating activities	316,883	334,000
Cash flows from investing activities:		
Purchases of available-for-sale securities	(1,349,852)	(1,566,289)
Proceeds from sale and maturity of available-for-sale securities	1,248,939	1,432,191
Purchases of property, plant and equipment	(13,051)	(17,543)
Other investing activities	242	(5,251)
Net cash used in investing activities	(113,722)	(156,892)
Cash flows from financing activities:		
Repurchases of common stock	(199,998)	(301,015)
Proceeds from issuance of common stock through various stock plans, net	14,823	5,532
Payment of dividends to stockholders	(160,402)	(154,378)
Excess tax benefit from stock-based compensation	10,455	13,775
Net cash used in financing activities	(335,122)	(436,086)
Net decrease in cash and cash equivalents	(131,961)	(258,978)
Cash and cash equivalents at beginning of period	892,572	973,677
Cash and cash equivalents at end of period	$760,611	$714,699
Supplemental disclosure of cash flow information:		
Interest paid	$20,688	$20,901
Income taxes paid, net	$46,121	$40,139

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 (GAAP) for interim financial information and the instructions to Form 10-Q and Article 10 of Regulation S-X, and should be read in conjunction with the Xilinx, Inc. (Xilinx or the Company) consolidated financial statements filed with the U.S. Securities and Exchange Commission (SEC) on Form 10-K for the fiscal year ended March 28, 2015. 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, 2016 or any future period.

The Company uses a 52- to 53-week fiscal year ending on the Saturday nearest March 31. Fiscal 2016 will be a 53-week year ending on April 2, 2016, while fiscal 2015 was a 52-week year ending on March 28, 2015. Accordingly, the third quarter of fiscal 2016 will be a 14-week quarter ending on January 2, 2016. The quarters ended September 26, 2015 and September 27, 2014 each included 13 weeks.

Note 2. Recent Accounting Changes and Accounting Pronouncements

In April 2014, the Financial Accounting Standards Board (FASB) issued the authoritative guidance that outlines a new global revenue recognition standard that replaces virtually all existing US GAAP guidance on contracts with customers and the related other assets and deferred costs. The 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 standard 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. In July 2015, FASB approved the deferral of the effective date of this guidance by one year. As a result, this guidance will be effective for the Company beginning in fiscal year 2019, with an option to early adopt in fiscal year 2018. The new standard 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 impact of this new guidance on its consolidated financial statements, including selection of the transition method and the adoption date.

In May 2015, the FASB issued the authoritative guidance that eliminates current requirement to categorize within the fair value hierarchy investments whose fair values are measured at net asset value using the practical expedient approach. Instead, entities will be required to disclose the fair values of such investments so that financial statement users can reconcile amounts reported in the fair value hierarchy table and the amounts reported on the balance sheet. This guidance is effective for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015, which for Xilinx would be the first quarter of fiscal year 2017 and should be applied using a retrospective approach. Earlier adoption is permitted. This guidance does not affect the underlying accounting for such investments.

In July 2015, the FASB issued the authoritative guidance that requires an entity to measure inventory at the lower of cost or net realizable value (NRV). NRV is the estimated selling price in the ordinary course of business, less reasonably predictable cost of completion, disposal, and transportation. This guidance is effective for reporting periods beginning after December 15, 2016, including interim periods within those fiscal years, which for Xilinx would be the first quarter of fiscal year 2018. The amendments should be applied prospectively with earlier application permitted as of the beginning of an interim or annual reporting period. The Company is currently evaluating the impact of this new guidance on its consolidated financial statements.

In August 2015, FASB issued the authoritative guidance that clarifies the guidance regarding presentation and subsequent measurement of debt issuance costs related to line-of-credit arrangements. This guidance clarifies that an entity may defer and present debt issuance costs as an asset and subsequently amortize the deferred debt issuance costs ratably over the term of the line-of-credit arrangement, regardless of whether there are any outstanding borrowings on the line-of-credit arrangement. The Company does not expect the adoption of this guidance to have significant impact 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 26, 2015 and March 28, 2015, Avnet accounted for 70% and 67% of the Company’s total net accounts receivable, respectively. For the second quarter and first six months of fiscal 2016, resale of product through Avnet accounted for 50% and 51% of the Company’s

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worldwide net revenues, respectively. Resale of product through Avnet accounted for 43% of the Company's worldwide net revenues for both the second quarter and the first six months of fiscal 2015.

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 2016 and 2015.

The Company mitigates concentrations of credit risk in its investments in debt securities by currently investing approximately 89% 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 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 September 26, 2015, 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 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. 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.

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 six months of fiscal 2016 and the Company did not adjust or override any fair value measurements as of September 26, 2015.

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 and agency securities and money market funds.

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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, municipal bonds, U.S. government and 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 commodity 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's Level 3 assets and liabilities include student loan auction rate securities.

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 September 26, 2015 and March 28, 2015:

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(In thousands)	September 26, 2015 Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Assets				
Cash equivalents:				
Money market funds	$203,815	$—	$—	$203,815
Financial institution securities	—	75,006	—	75,006
Non-financial institution securities	—	257,342	—	257,342
U.S. government and agency securities	—	5,000	—	5,000
Foreign government and agency securities	—	75,924	—	75,924
Short-term investments:				
Financial institution securities	—	225,000	—	225,000
Non-financial institution securities	—	214,189	—	214,189
Municipal bonds	—	55,856	—	55,856
U.S. government and agency securities	150,481	296,097	—	446,578
Foreign government and agency securities	—	125,557	—	125,557
Asset-backed securities	—	207,461	—	207,461
Mortgage-backed securities	—	963,354	—	963,354
Debt mutual funds	—	34,650	—	34,650
Bank loans	—	104,052	—	104,052
Commercial mortgage-backed securities	—	158,476	—	158,476
Long-term investments:				
Auction rate securities	—	—	10,413	10,413
Asset-backed securities	—	7,387		7,387
Municipal bonds	—	7,258	—	7,258
Mortgage-backed securities	—	156,851	—	156,851
Debt mutual fund	—	53,671	—	53,671
Commercial mortgage-backed securities	—	342	—	342
Total assets measured at fair value	$354,296	$3,023,473	$10,413	$3,388,182
Liabilities				
Derivative financial instruments, net	$—	$4,533	$—	$4,533
Total liabilities measured at fair value	$—	$4,533	$—	$4,533
Net assets measured at fair value	$354,296	$3,018,940	$10,413	$3,383,649

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(In thousands)	March 28, 2015 Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Assets				
Cash equivalents:				
Money market funds	$235,583	$—	$—	$235,583
Financial institution securities	—	229,999	—	229,999
Non-financial institution securities	—	89,995	—	89,995
U.S. government and agency securities	—	200,392	—	200,392
Foreign government and agency securities	—	37,996	—	37,996
Short-term investments:				