

Management's Discussion and Analysis of Results of Operations and Financial Condition

Cautionary Statement The statements in this Management's Discussion and Analysis that are forward looking involve numerous risks and uncertainties and are based on current expectations. Actual results may differ materially. Such risks and uncertainties are detailed in the Company's SEC reports and filings. Certain of these risks and uncertainties are discussed under "Factors Affecting Future Results."

Nature of Operations Xilinx, Inc. ("Xilinx" or the "Company") designs, develops and markets CMOS (complementary metal oxide-silicon) programmable logic devices and related development system software. The Company's programmable logic product lines include field programmable gate arrays ("FPGAs") and complex programmable logic devices ("CPLDs"). These components are standard integrated circuits ("ICs") programmed by Xilinx's customers to perform desired logic operations. Xilinx introduced the first FPGA device in 1985, holds patents on FPGA architecture and technology, and continues to be the leading supplier to this market. Xilinx also markets hardwire devices which are mask-programmed ICs functionally equivalent to programmed FPGAs. The Company's products provide high integration and quick time-to-market for electronic equipment manufacturers in the data processing, telecommunications, networking, industrial control, instrumentation and military markets. The Company markets its products throughout the world through a direct sales organization, direct sales to manufacturers by independent sales representative firms, sales through licensed domestic distributors and sales through foreign distributors. Xilinx's products have provided effective solutions to a wide range of customer logic requirements, thereby permitting the Company to increase revenues and market share and to realize excellent profitability during fiscal 1996.

Results of Operations

The following table sets forth certain operational data both as percentages of annual revenues and as percentage changes from the prior year's results.

	<i>Years ended March 31,</i>			<i>Increase from Prior Year</i>	
	1996	1995	1994	1996	1995
Revenues	100.0%	100.0%	100.0%	57.9%	38.5%
Cost of revenues	36.2%	39.0%	38.5%	46.7%	40.1%
Gross margin	63.8%	61.0%	61.5%	65.1%	37.4%
Research and development	11.5%	12.8%	13.4%	42.5%	32.0%
Marketing, general and administrative	19.2%	21.6%	22.7%	40.5%	32.1%
Operating income before non-recurring charges	33.1%	26.6%	25.4%	95.8%	45.1%
Non-recurring charges	3.5%	0.7%	-	NM	NM
Operating income	29.6%	25.9%	25.4%	80.1%	41.2%
Interest income (net)	0.9%	0.8%	0.9%	84.0%	23.3%
Income before taxes	30.5%	26.7%	26.3%	80.2%	40.6%
Provision for income taxes	12.4%	10.0%	10.2%	95.3%	36.0%
Net income	18.1%	16.7%	16.1%	71.1%	43.6%

Revenue Xilinx reported record revenues for 1996 of \$560.8 million, representing an increase of 57.9% from \$355.1 million for 1995 and 118.7% from \$256.4 million reported for 1994. The growth in revenues was a function of increased unit sales of programmable logic devices and, more specifically, was primarily attributable to the revenue growth of the XC4000 family as well as the growth of the Company's new product, the XC5000 family. Other contributors included the Company's XC3000, XC3100 and CPLD families.

Xilinx's development system software is used by the Company's customers to implement designs in the Company's programmable logic devices. Software revenues increased by 36.1% in 1996 to approximately \$17.1 million as compared to \$12.6 million in 1995 and \$11.6 million in 1994. Although software revenues have increased in dollar amounts, sales have declined as a percentage of total revenues, accounting for 3%, 4% and 5% of revenues for 1996, 1995 and 1994, respectively. Cumulative licenses for proprietary development system software distributed to customers through the end of 1996 approximated 26,700 units, as compared to 21,000 and 16,500 at the end of 1995 and 1994, respectively.

Revenue contribution by product line reflected increased customer demand for the functionality and performance provided by the Company's higher density and higher speed programmable logic devices. Of the \$205.7 million growth in revenues between 1995 and 1996, 96% was provided by revenues from the proprietary products within the XC3000 family as well as the XC3100, XC4000, XC5000 and CPLD families, all of which are proprietary products. Revenues from proprietary products increased from 74% of the aggregate revenues in 1995 to 85% in 1996. In the fourth quarter of 1996, proprietary products accounted for 88% of total revenues as compared to 79% for the comparable 1995 quarter. Revenues from the XC4000 family increased 106% between 1995 and 1996 to \$250 million. Deriving revenues from proprietary products has been emphasized by the Company as an effective implementation of a corporate pricing strategy whose aim is to expand the market for its products by reducing sales prices coincident with and commensurate with reductions in the cost of manufacturing these products. The Company is actively pursuing a strategy of broadening the

markets it serves through the enhancement of software development tools, the introduction of architectures offering new functionality, and the reduction of IC prices through continuous advancements in the silicon manufacturing process.

During 1996, all product families except the non-proprietary members of the XC3000 family, where there is a second source competitor, experienced increases in unit volume. During this period, the average selling price of an IC product family fell between 8% and 24%. Individual products within the XC3000, XC3100 and XC4000 families experienced price decreases as much as 32% during the past year, as prices were reduced in the higher complexity and higher speed families in order to be more competitive in high volume applications. Price erosion of this magnitude has been common in the semiconductor industry, as advances in both architecture and manufacturing process technology have permitted continual reductions in cost. The approximately 70% increase in unit volume for the XC3100 family and the more than doubling in unit volume for the XC4000 family outweighed the impact of price erosion on individual product lines, as the weighted average selling price for all ICs increased approximately 4% in 1996 relative to the previous year.

The XC4000 products provide the widest range of densities of any family, currently ranging from 2,000 to 28,000 gates. The Company's HardWireTM products offer a low cost migration path for high volume applications. During 1996, the Company began volume production of the XC5000 family, which represents the first FPGA specifically developed as a cost effective, high volume production alternative to gate arrays. The XC5000 family is expected to allow the Company to enter new market segments, for which most new designs are expected to require higher quantities. However, there can be no assurances that the XC5000 family will be successful in entering new market segments. Revenues for the XC5000 family were \$9.1 million for 1996. In the second half of 1996 the Company introduced the XC9500 CPLD family, which provides complete in-system programming and test capabilities for users who need maximum design flexibility throughout their product life cycle.

No single end customer accounted for more than 6% of revenues in 1996 or

1995 and 4% of revenues in 1994.

International revenues constituted 35%, 31% and 28% of total revenues for 1996, 1995 and 1994, respectively. International revenues continue to be primarily to customers in Europe and Japan. Revenue growth over the past year in these two international markets was 73% and 111%, respectively. In 1996, the Company completed construction of a \$32.3 million manufacturing facility in Dublin, Ireland. The Ireland facility has increased production levels throughout 1996 and has enhanced the Company's ability to meet the needs of its international customers. The Company believes that international revenues will continue to grow at a faster rate over the intermediate future than domestic sales and projects that such revenues will eventually comprise 50% of the worldwide total. However, there can be no assurances that international revenues will eventually reach this level in the future. Sales to Pacific Rim, Middle East and other regions outside North America, Europe and Japan represented approximately 4% of revenues in each year presented.

Recently, several independent semiconductor industry analysts have indicated their belief that the overall semiconductor industry will grow at lower rates than actual growth rates over the last few years. See "Other Factors Affecting Operating Results" for discussion relating to potential impact of semiconductor industry conditions on the Company's business.

The Company expects its growth rate in revenue for fiscal 1997 to decrease from the levels experienced in fiscal 1996. The Company believes that the conditions that led to slow growth in the last two quarters of fiscal 1996 are still present, although probably to a lesser degree. The Company also realizes that a prolonged slowdown in the overall semiconductor industry would detrimentally impact Xilinx. While the Company currently projects revenue growth rates for the first two quarters of fiscal 1997 to be comparable to or above the two to four percent quarterly growth experienced in the final two quarters of the prior fiscal year, no assurance can be given that this will be the case.

The preceding three paragraphs contain forward-looking statements which involve risks and uncertainties. The Company's actual results could differ

materially from those anticipated in these forward-looking statements as a result of certain factors including those set forth in "Factors Affecting Future Results" and elsewhere in this section.

Gross Margin Gross margin as a percentage of revenues was 63.8% for 1996 as compared to 61% for 1995 and 61.5% for 1994. Recent gross margin improvements are largely due to the strengthening of the dollar versus the yen, recurring pricing negotiations, improved product yields associated with recent manufacturing technology enhancements, and realization of the benefits of expanded levels of production. Over the past three years, Xilinx has also been able to offset much of the erosion in gross margin percentages on the more mature integrated circuits with increased volumes of newer, proprietary, higher margin products. The Company recognizes that ongoing price reductions for its integrated circuits are a significant element in expanding the market for its products. Company management believes that the fiscal 1996 gross margins of 63.8% are neither sustainable nor desirable in the future. Gross margins closer to the Company's historical range of 60% to 62% of revenues are considered more appropriate for expanding market share while realizing acceptable returns, although there can be no assurance that future gross margins will be in this range. Because the Company's wafer purchases supplied by Japanese foundries are denominated in yen, a strengthened U.S. dollar exchange rate against the yen has had a positive impact on manufacturing costs. Manufacturing costs would be adversely impacted if the dollar weakens against the yen. "See Factors Affecting Future Results."

Research and Development The Company has

Research and Development The Company has increased the dollars spent on research and development each year in its twelve year history. These expenses in 1996 exceeded those of the prior year by 43% and those of 1994 by 88%. The increase in research and development expenses is primarily attributable to increased staffing, higher engineering wafer purchases, and increased facility and support costs associated with an expanded scope of operations. Increased staffing in fiscal 1996 was attributable in part to the acquisition and integration of NeoCAD. See Note 3 of Notes to Consolidated Financial Statements. The Company remains committed to a significant level of research and development effort in order to continue to compete aggressively in the programmable logic marketplace. Through March 31, 1996, the Company had 92 U.S. patents issued and has filed for an additional 139 U.S. patents in the areas of software, IC architecture and design. As of March 31, 1996, research and development personnel were split 40% for software development and 60% for integrated circuit design and process development. Xilinx has not capitalized any of the costs associated with its software development.



Marketing, General and Administrative Marketing, general and administrative costs have increased in each of the past three years but declined as a percentage of revenues, reflecting both the greater growth rate in revenues and the Company's commitment to control administrative expenses. Sales expenses have increased each year due to increasing personnel, increases in advertising, the costs of new sales offices, and greater commission expenses associated with higher revenues. The Company has nineteen sales offices located throughout the United States, including the metropolitan areas of San Jose, Los Angeles, Denver, Dallas, Chicago, Minneapolis, Atlanta, Raleigh, Philadelphia and Boston as well as eight international sales offices located in the metropolitan areas of London, Munich, Paris, Stockholm, Tokyo, Taipei, Seoul and Hong Kong. The increase in general and administrative expenses since 1994 is primarily attributable to an expanded number of employees and to continuing legal expenses associated with litigation intended to protect the Company's

intellectual property rights. The timing and extent of future legal costs associated with the ongoing enforcement of the Company's intellectual property rights are not readily predictable and may increase the level of future general and administrative expenses.

Non-recurring Charges During the first quarter of fiscal 1996, the Company incurred a \$19.4 million non-recurring write-off of in-process technology relating to the Company's acquisition of NeoCAD. During 1996, the Company has incurred research and development expenses relating to its efforts to combine the Xilinx and NeoCAD technologies into an integrated software product. See Note 3 of Notes to Consolidated Financial Statements. During 1995, the Company incurred a \$2.5 million write-off of a minority investment in Star Semiconductor Corporation.

Operating Income Operating income grew from \$65.2 million in 1994 to \$92 million in 1995 and to \$165.8 million in 1996. Operating income in 1996 was \$185.1 million before consideration of the non-recurring write-off of in-process technology. Over the past three years, operating income as a percentage of revenues (before consideration of non-recurring charges) has increased from 25.4% in 1994 to 26.6% in 1995 and to 33% in 1996. Operating income as a percentage of revenues could be adversely impacted in future years by the factors noted above, and as the Company expands its efforts in research and development and continues to assert its intellectual property rights.

Interest, Net The Company incurs interest expense on the \$250 million of 5¼% convertible subordinated notes issued in November 1995. The Company earns interest income on its cash, cash equivalents, short-term investments and restricted investments. The amount of interest earned is a function of the balance of cash invested as well as the prevailing interest rates. Net interest income for 1996 increased by \$2.3 million over 1995. In 1996, the increased interest expense incurred relating to the notes was partially offset by the interest income earned from investing the net proceeds of such notes. The Company's investment portfolio contains tax-advantaged municipal bonds which have pretax yields which are less than the interest rate on the notes. For financial reporting purposes, the Company effectively records the difference between the pretax and tax-equivalent yields as a

reduction in provision for taxes on income. As a result of the difference in yields and future uses of the investment portfolio, levels of net interest income are likely to decrease in the future.

Provision for Income Taxes Xilinx's effective tax rate was 40.6% for 1996 as compared to 37.5% and 38.8% for 1995 and 1994, respectively. The higher tax rate for fiscal 1996 resulted from the non-recurring write-off of in-process technology relating to the acquisition of NeoCAD, which is not tax deductible. Excluding the non-recurring write-off of in-process technology, the Company's effective tax rate for fiscal 1996 was 36.5%. The reduced rate from the previous fiscal year is primarily due to the Company's expanded operations in certain foreign jurisdictions that offer statutory tax rates beneath the U.S. effective tax rate. The Company believes that net deferred tax assets (approximately \$25.1 million at March 31, 1996) are realizable due to the taxable income existing in potential carryback years.

Inflation The effects of inflation upon the Company's financial results have not been significant.

Factors Affecting Future Results

Dependence Upon Independent Manufacturers The Company does not manufacture the wafers used for its products. To date, most of the Company's FPGA wafers have been manufactured by Seiko Epson Corporation (Seiko) and Yamaha Corporation. The Company has depended upon these suppliers and others to produce wafers with competitive performance and cost attributes, to produce wafers at acceptable yields and to deliver them to the Company in a timely manner. While the quality, yield and timeliness of wafer deliveries to date from its suppliers have been acceptable, there can be no assurance that manufacturing problems will not occur in the future. Any prolonged inability to obtain wafers with competitive performance and cost attributes, adequate yields or timely deliveries from these manufacturers, or any other circumstance that would require the Company to seek alternative sources of supply, could delay shipments. Any significant delays could have an adverse effect on the Company's operating results.

The Company's long-term growth will depend in large part on the Company's ability to obtain increased wafer fabrication capacity from suppliers. A significant increase in general industry demand or any interruption of supply could reduce the Company's supply of wafers or increase the Company's cost of such wafers, thereby materially adversely affecting the Company's business.

In order to secure additional wafer capacity, the Company from time to time considers a number of alternatives, including, without limitation, equity investments in, or loans, deposits, or other financial commitments to, independent wafer manufacturers in exchange for production capacity, or the use of contracts which commit the Company to purchase specified quantities of wafers over extended periods. The Company has at times been unable, and may in the future be unable, to fully satisfy customer demand because of production constraints, including the ability of suppliers and subcontractors to provide materials and services in a timely manner, as well as the ability of the Company to process products for shipment. The Company's future growth will depend in part on its ability to locate and qualify additional suppliers and subcontractors and to increase its own capacity to ship products, and there can be no assurance that the Company will be able to do so. Any increase in these constraints on the Company's production could materially adversely affect the Company's business. In this regard, the Company has entered into a joint venture, United Silicon Inc. (USI), to construct a new wafer fabrication facility. See Notes 4 and 5 of Notes to Consolidated Financial Statements and the Commitments discussion within "Financial Condition, Liquidity and Capital Resources." However, there are many risks associated with the construction of a new facility, and there can be no assurance that such facility will become operational in a timely manner. In addition, the Company has recently entered into an agreement for additional capacity with another foundry. See Note 11 of Notes to Consolidated Financial Statements and the Commitments discussion within "Financial Condition, Liquidity and Capital Resources." If the Company requires additional capacity and such capacity is unavailable, or unavailable on reasonable terms, the Company's business could be materially adversely affected.

Impact of Currency The Company has historically purchased most of the processed silicon wafers used in its integrated circuits from Japanese foundries, which have been denominated in yen. The Company has often limited its exposure to fluctuations in foreign exchange rates through the purchase of forward exchange and option contracts and by denominating billings to Japanese customers in yen. The Company has entered into currency option contracts to cover approximately 50% of 1997 yen requirements for wafer purchases after consideration of foreign sales denominated in yen. Weakness in the purchasing power of the U.S. dollar could increase the effective cost of processed silicon and adversely affect the Company's future results of operations. Foreign sales are billed in U.S. dollars except for sales in Japan denominated in yen. The Company has also entered into foreign exchange forward contracts to eliminate the impact of future exchange fluctuations on the U.S. dollar cost of investing in the USI joint venture.

Litigation The Company is currently involved in patent litigation with Altera Corporation (see Note 10 of Notes to Consolidated Financial Statements and 1996 Annual Report on Form 10K, Item 3, Legal Proceedings). Due to the uncertain nature of the litigation with Altera and because the lawsuits are still in the pre-trial stage, the ultimate outcome of these matters cannot be determined at this time. Management believes that it has meritorious defenses to such claims and is defending them vigorously. The foregoing is a forward looking statement and the future outcome could differ.

Other Factors Affecting Operating Results The semiconductor industry is characterized by rapid technological change, intense competitive pressure and cyclical market patterns. The Company's results of operations are affected by a wide variety of factors, including general economic conditions and conditions specific to the semiconductor industry, decreases in average selling price over the life of any particular product, the timing of new product introductions (both by the Company and its competitors), the timely implementation of new manufacturing technologies, the ability to safeguard patents and intellectual property in a rapidly evolving market, and rapid escalation of demand for some products in the face of equally steep decline in demand for others. Market demand for the Company's products,

particularly for those most recently introduced, can be difficult to predict, especially in light of customers' demands to shorten product lead time. This could lead to revenue volatility if the Company were unable to provide sufficient quantities of specified products in a given quarter. In addition, any difficulty in achieving targeted yields could adversely impact the Company's results of operations. The Company attempts to identify these changes in market conditions as soon as possible; however, the rapidity of their onset makes prediction of and reaction to such events difficult. Due to the foregoing and other factors, past results are a much less reliable predictor of the future than is the case in many older, more stable and less dynamic industries.

The Company's future success depends on its ability to develop and introduce on a timely basis new products which compete effectively on the basis of price and performance and which address customer requirements. The success of new product introductions is dependent upon several factors, including timely completion of new product designs, achievement of acceptable yields and market acceptance. No assurance can be given that the Company's product development efforts will be successful or that its new products will achieve market acceptance. In addition, the average selling price for any particular product tends to decrease rapidly over the product's life. To offset such decreases, the Company relies primarily on obtaining yield improvements and corresponding cost reductions in the manufacture of existing products and on introducing new products which incorporate advanced features and other price/performance factors such that higher average selling prices and higher margins are achievable relative to mature product lines. To the extent that such cost reductions and new product introductions with higher margins do not occur in a timely manner or the Company's products do not achieve market acceptance, the Company's operating results could be adversely affected.

The Company's FPGA and CPLD products compete in the programmable logic marketplace, with approximately 90% of the Company's revenues derived from its FPGA product families. The industries in which the Company competes are intensely competitive and are characterized by rapid technological change, rapid product obsolescence and price erosion. The Company expects significantly increased competition both from existing

competitors and from a number of companies that may enter its market. Xilinx believes that important competitive factors in the programmable logic market include price, product performance and reliability, adaptability of products to specific applications, ease of use and functionality of development system software, and technical service and support. The Company's strategy for expansion in the programmable logic market includes continued price reductions commensurate with the ability to lower the cost of manufacture and continued introduction of new product architectures which target high volume, low cost applications. The Company's major sources of competition are comprised of three elements: the manufacturers of custom CMOS gate arrays, providers of high density programmable logic products characterized by FPGA-type architectures and other providers of programmable logic products. The Company competes with custom gate array manufacturers on the basis of lower design costs, shorter development schedules and reduced inventory risks. The primary attributes of custom gate arrays are high density, high speed and low production costs in high volumes. However, the Company believes that the design specifications for many customers can be met by the density and speed capabilities of Xilinx's programmable logic products which are cost effective in the required production volumes. In addition, the Company's efforts to introduce lower cost architectures are intended to narrow the gap between current custom gate array production costs (in high volumes) and FPGA production costs. To the extent that such efforts are not successful, the Company's business could be materially adversely affected.

The Company relies upon patent, trademark, trade secret and copyright law to protect its intellectual property. There can be no assurance that such intellectual property rights can be successfully asserted in the future or will not be invalidated, circumvented or challenged. From time to time, third parties, including competitors of the Company, may assert exclusive patent, copyright and other intellectual property rights to technologies that are important to the Company. Litigation, regardless of its outcome, could result in substantial cost and diversion of resources of the Company. Any infringement claim or other litigation against or by the Company could materially, adversely affect the Company's financial condition and results of operations.

The Company's future success depends in large part on the continued service of its key technical, marketing and management personnel and on its ability to continue to attract and retain qualified employees, particularly those highly skilled design, process and test engineers involved in the manufacture of existing products and the development of new products and processes. The competition for such personnel is intense, and the loss of key employees could have a material adverse effect on the Company's financial condition and results of operations.

Sales outside of the United States carry a number of inherent risks, including risks of currency exchange fluctuations, the need for export licenses, tariffs and other potential trade barriers, reduced protection for intellectual property rights in some countries, the impact of recessionary environments in economies outside the United States and generally longer receivable collection periods. The Company's business is also subject to the risks associated with the imposition of legislation and regulations relating to the import or export of semiconductor products. The Company cannot predict whether quotas, duties, taxes or other charges or restrictions will be imposed by the United States or other countries upon the importation or exportation of the Company's products in the future or what, if any, effect such actions would have on the Company's financial condition and results of operations.

In order to expand international sales and service, the Company will need to maintain and expand existing foreign operations or establish new foreign operations. This entails hiring additional personnel and maintaining or expanding existing relationships with international distributors and sales representatives. This will require significant management attention and financial resources and could adversely affect the Company's results of operations. There can be no assurance that the Company will be successful in its maintenance or expansion of existing foreign operations, in its establishment of new foreign operations or in its efforts to maintain or expand its relationships with international distributors or sales representatives.



The semiconductor industry has historically been cyclical and subject to, at various times, significant economic downturns characterized by diminished product demand, accelerated erosion of average selling prices and overcapacity. The Company may experience substantial period-to-period fluctuations in future operating results due to general semiconductor industry conditions, overall economic conditions or other factors.

Currently, most of the Company's operations are centered in an area that has been seismically active. Should there be a major earthquake in this area, the Company's operations may be disrupted resulting in the inability of the Company to ship products in a timely manner, thereby materially adversely affecting the Company's business. In addition, the securities of many high technology companies have historically been subject to extreme price and volume fluctuations which may adversely affect the market price of the Company's common stock.

Financial Condition, Liquidity and Capital Resources

The Company's financial condition at March 31, 1996 remained strong. Total current assets exceeded total current liabilities by 5.2 times, compared to 3.4 times at March 31, 1995. Since its inception, the Company has used a combination of equity and debt financing and internal cash flow to support operations, make acquisitions and investments in complementary technologies, obtain capital equipment and finance inventory and accounts receivable. Total assets have grown from \$320.9 million in 1995 to \$720.9 million in 1996. This increase reflects the net proceeds of \$243.9 million received from the sale of convertible subordinated notes during the year as well as the year's favorable operating results. The percentage changes of selected balance sheet items from March 1995 to March 1996 are shown below:

<i>Description</i>	<i>% Change from 1995 to 1996</i>
Cash, cash equivalents and short-term investments	207.6%
Receivables	81.2%
Inventories	53.4%
Total current assets	110.3%
Total assets	124.6%
Total current liabilities	34.9%
Stockholders' equity	50.9%

Cash, Cash Equivalents and Short-term Investments Xilinx's cash, cash equivalents and short-term investments increased by \$255.1 million in 1996 to \$378 million. The Company generated cash flow of approximately \$150.3 million from operating activities in 1996 offset by \$352.7 million of cash used for investing activities, including the acquisition of NeoCAD, the USI joint venture, net purchases of investments and investments in property, plant and equipment. In addition, the Company generated \$256.7 million of cash from financing activities reflecting the proceeds derived from the convertible debt offering, which netted \$243.9 million, and \$14.2 million of common stock proceeds under employee option and stock purchase plans, offset by \$1.4 million of principal payments on capital lease obligations. At March 31, 1996, cash, cash equivalents and short-term investments represented 52% of total assets.

Receivables Receivables grew 81.2% from \$43.9 million at the end of 1995 to \$79.5 million at the end of 1996. The increase in receivables year-to-year is primarily due to the greater volume of shipments which occurred in the last month of fiscal 1996.

Inventories Inventories increased 53.4% from \$25.6 million at March 1995 to \$39.2 million at March 1996. Inventory levels at March 31, 1996 represent 69 days of inventory, which is consistent with Company

objectives, and compares to 54 days at March 31, 1995. The Company confronts dual, contradictory objectives with regard to inventory management. On the one hand, the Company believes that its standard, off-the-shelf products should be available for prompt shipment to customers. Accordingly, it attempts to maintain sufficient levels of inventory in various product, range and speed configurations to meet unpredictable customer demand. At the same time, the Company also wishes to minimize the handling costs associated with higher inventory levels and to realize fully the opportunities for cost reduction associated with future manufacturing process advancements. The Company continually strives to balance these two objectives so as to provide excellent customer response at a competitive cost. Year-end inventories as a percentage of the fourth quarter's cost of revenues increased from 60% in 1995 to 76% in 1996.

Property, Plant and Equipment Xilinx's investment in property and equipment was \$60.5 million in 1996 compared to \$26.2 million in 1995. The Company continues to invest in software design tools and semiconductor design, test and manufacturing equipment. The Company



completed construction of a \$32.3 million manufacturing facility in Dublin, Ireland in 1996 to establish capacity to meet increased product demand. Although the Company anticipates significantly lower capital expenditures in fiscal 1997 as a result of the completion of the Ireland facility, significant investments with wafer suppliers are planned for 1997. See Commitments discussion.

Current Liabilities Current liabilities grew by 34.9% to \$102.6 million at the end of 1996. This growth is primarily attributable to increased deferred income for shipments made to domestic distributors, increased trade payables associated with an expanded scale of operations and interest payable relating to the convertible subordinated notes.

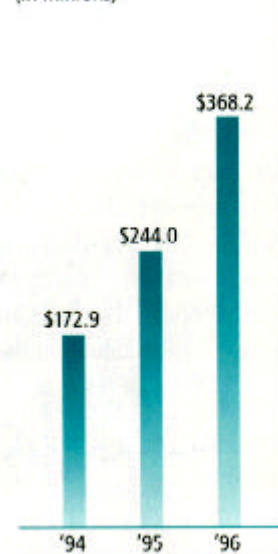
Line of Credit The Company has obtained credit line facilities for up to \$47 million (see Note 5 of Notes to Consolidated Financial Statements) of which

\$7 million is intended to meet occasional working capital requirements for the Company's wholly owned Irish subsidiary. At March 31, 1996, no borrowings were outstanding under the lines of credit.

Long-term Debt In November 1995, the Company issued \$250 million in convertible subordinated notes. See Note 5 of Notes to Consolidated Financial Statements. There was no significant long-term debt in 1995.

Stockholders' Equity Stockholders' equity grew by 50.9% in 1996 to \$368.2 million. The increase of \$124.3 million was primarily attributable to \$101.5 million in net income and \$22.1 million related to the issuance of common stock in accordance with the Company's stock plans and the tax benefit from stock options. Stockholders' equity as a percentage of total assets was 51.1% for 1996 and 76% for 1995.

Stockholders' Equity
(in millions)



Stock Price



Commitments The Company entered into a series of agreements with United Microelectronics Corporation (UMC) pursuant to which the Company has agreed to join UMC

and other parties to form a joint venture for the purpose of building and managing an advanced semiconductor manufacturing facility in Taiwan. See Note 4 of Notes to Consolidated Financial Statements. Under the terms of the agreement, the Company invested \$34 million in fiscal 1996 and will invest an additional \$68 million and \$34 million in December 1996 and July 1997, respectively for a 25% equity interest in the venture. As a result of its equity ownership, the Company will

receive rights to purchase at market prices a percentage of the facility's wafer production. The proposed facility is expected to commence limited production of eight-inch sub-micron wafers during fiscal 1998. The Company is currently receiving eight-inch, sub-micron wafers in limited volume from a recently constructed foundry in which UMC is the major

shareholder. Xilinx believes it will continue to receive such products in moderate volumes until the proposed facility is operational. On May 17, 1996, the Company signed an agreement with Seiko Epson Corporation (Seiko), a primary wafer supplier. See Note 11 of Notes to Consolidated Financial Statements. The agreement provides for an advance to Seiko of \$200 million to be used in the construction of a wafer fabrication facility in Japan which will provide access to eight-inch sub-micron wafers. In conjunction with the agreement, \$30 million was paid in May 1996 and further installments are scheduled starting in November 1996. Repayment of this advance will be in the form of wafer deliveries expected to begin in the first half of 1998. In addition to the advance payments, the Company will provide further funding to Seiko in the amount of \$100 million. This additional funding will be paid after the final installment of the \$200 million advance, and the form of the additional funding will be negotiated at that time.

Employees The number of Company employees grew by 38% during the past year. Xilinx had 1,201 employees at the end of 1996 as compared to 868 at the end of the prior year.

The Company anticipates that existing sources of liquidity and cash flow from operations will be sufficient to satisfy the Company's cash needs for the foreseeable future. The Company will continue to evaluate opportunities for investments to obtain additional wafer supply capacity, procurement of additional capital equipment and facilities, development of new products, and potential acquisitions of businesses, products or technologies that would complement the Company's businesses and may use available cash or other sources of funding for such purposes.

