XILINX INC
Form 10-Q
February 02, 2007

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 December 30, 2006 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 0-18548**

Xilinx, Inc.

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	**77-0188631** (IRS 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 o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer x Accelerated filer o Non-accelerated filer 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 x

Shares outstanding of the Registrant s common stock:

Class	Shares Outstanding at January 23, 2007
Common Stock, $.01 par value	331,864,381

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

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 Dec. 30, 2006	Three Months Ended Dec. 31, 2005	Nine Months Ended Dec. 30, 2006	Nine Months Ended Dec. 31, 2005
Net revenues	$ 450,725	$ 449,605	$ 1,399,267	$ 1,253,913
Cost of revenues	177,963	166,476	550,602	478,926
Gross margin	272,762	283,129	848,665	774,987
Operating expenses:				
Research and development	96,092	81,073	289,625	239,730
Selling, general and administrative	89,973	80,683	279,853	234,414
Amortization of acquisition-related intangibles	2,007	1,536	6,069	5,047
Litigation settlements and contingencies	2,500		2,500	3,165
Stock-based compensation related to prior years			2,209	
Total operating expenses	190,572	163,292	580,256	482,356
Operating income	82,190	119,837	268,409	292,631
Impairment loss on investments	(1,513)		(1,950)	
Interest income and other, net	22,440	10,943	63,413	36,196
Income before income taxes	103,117	130,780	329,872	328,827
Provision for income taxes	15,608	49,811	66,826	85,419
Net income	$ 87,509	$ 80,969	$ 263,046	$ 243,408
Net income per common share:				
Basic	$ 0.26	$ 0.23	$ 0.77	$ 0.70
Diluted	$ 0.26	$ 0.23	$ 0.76	$ 0.68
Cash dividends declared per common share	$ 0.09	$ 0.07	$ 0.27	$ 0.21
Shares used in per share calculations:				
Basic	334,062	348,203	339,571	349,674
Diluted	339,669	353,237	345,347	355,881

See notes to condensed consolidated financial statements.

XILINX, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except par value amounts)	Dec. 30, 2006 (Unaudited)	April 1, 2006 (1)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 540,048	$ 783,366
Short-term investments	617,605	201,551
Investment in United Microelectronics Corporation, current portion		37,285
Accounts receivable, net	147,711	194,205
Inventories	185,232	201,029
Deferred tax assets	116,450	110,928
Prepaid expenses and other current assets	117,687	119,884
Total current assets	1,724,733	1,648,248
Property, plant and equipment, at cost	708,253	666,360
Accumulated depreciation and amortization	(340,505)	(308,103)
Net property, plant and equipment	367,748	358,257
Long-term investments	641,223	616,296
Investment in United Microelectronics Corporation, net of current portion	72,284	239,209
Goodwill	124,898	125,084
Acquisition-related intangibles, net	16,566	22,651
Other assets	151,615	163,802
Total Assets	$ 3,099,067	$ 3,173,547
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 60,071	$ 71,004
Accrued payroll and related liabilities	92,832	79,260
Income taxes payable	46,682	30,048
Deferred income on shipments to distributors	96,144	126,558
Other accrued liabilities	28,778	38,154
Total current liabilities	324,507	345,024
Deferred tax liabilities	105,425	92,153
Other long-term liabilities	1,321	7,485
Commitments and contingencies		
Stockholders equity:		
Preferred stock, $.01 par value (none issued)		
Common stock, $.01 par value	3,317	3,426
Additional paid-in capital	1,330,223	1,375,120
Retained earnings	1,327,592	1,334,530
Accumulated other comprehensive income	6,682	15,809
Total stockholders equity	2,667,814	2,728,885
Total Liabilities and Stockholders Equity	$ 3,099,067	$ 3,173,547

(1) Derived from audited financial statements

See notes to condensed consolidated financial statements.

XILINX, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(In thousands)	Nine Months Ended Dec. 30, 2006	Dec. 31, 2007
Cash flows from operating activities:		
Net income	$ 263,046	$ 243,408
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	38,103	39,177
Amortization	13,390	11,815
Stock-based compensation	70,157	
Stock-based compensation related to prior years, net of tax	1,559	
Net (gain) loss on sale of available-for-sale securities	(1,302)	1,375
Litigation settlements and contingencies	2,500	3,165
Impairment loss on investments	1,950	
Noncash compensation expense		735
Tax benefit from exercise of stock options	19,973	25,027
Excess tax benefit from stock-based compensation	(19,056)	
Changes in assets and liabilities:		
Accounts receivable, net	46,494	71,188
Inventories	18,204	(26,160)
Deferred income taxes	(19,284)	(5,179)
Prepaid expenses and other current assets	22,104	(38,130)
Other assets	(17,651)	(47,764)
Accounts payable	(10,933)	15,638
Accrued liabilities	(6,662)	20,734
Income taxes payable	53,757	81,404
Deferred income on shipments to distributors	(30,414)	9,207
Net cash provided by operating activities	445,935	405,640
Cash flows from investing activities:		
Purchases of available-for-sale securities	(1,295,107)	(1,308,277)
Proceeds from sale and maturity of available-for-sale securities	1,042,059	1,435,765
Purchases of property, plant and equipment	(47,594)	(44,556)
Other investing activities	(1,564)	(24,109)
Net cash provided by (used in) investing activities	(302,206)	58,823
Cash flows from financing activities:		
Repurchases of common stock	(400,000)	(276,584)
Proceeds from issuance of common stock through various stock plans	85,117	59,716
Payment of dividends to stockholders	(91,220)	(73,076)
Excess tax benefit from stock-based compensation	19,056	
Net cash used in financing activities	(387,047)	(289,944)
Net increase (decrease) in cash and cash equivalents	(243,318)	174,519
Cash and cash equivalents at beginning of period	783,366	449,388
Cash and cash equivalents at end of period	$ 540,048	$ 623,907
Supplemental schedule of non-cash activities:		
Accrual of affordable housing credit investments	$	$ 19,821
Supplemental disclosure of cash flow information:		

Income taxes paid, net of refunds	$	20,211	$	7,503

See notes to condensed consolidated financial statements.

XILINX, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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 on Form 10-K for the fiscal year ended April 1, 2006. 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, 2007 or any future period.

The Company uses a 52- to 53-week fiscal year ending on the Saturday nearest March 31. Fiscal 2007 is a 52-week year ending on March 31, 2007. Fiscal 2006, which ended on April 1, 2006, was a 52-week fiscal year. The first, second and third quarters of fiscal 2007 and 2006 were all 13-week quarters.

2. Recent Accounting Pronouncements

In February 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 155, Accounting for Certain Hybrid Financial Instruments, an amendment of FASB Statements No. 133 and 140 (SFAS 155). SFAS 155 permits interests in hybrid financial instruments that contain an embedded derivative, which would otherwise require bifurcation, to be accounted for as a single financial instrument at fair value, with changes in fair value recognized in earnings. This election is permitted on an instrument-by-instrument basis for all hybrid financial instruments held, obtained, or issued as of the adoption date. SFAS 155 is effective for all financial instruments acquired or issued after the beginning of an entity s first fiscal year that begins after September 15, 2006 (fiscal 2008 for Xilinx). The Company is currently assessing the impact of SFAS 155 on its financial condition and results of operations.

In July 2006, the FASB issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109 (FIN 48). This interpretation clarifies the accounting for uncertainty in income taxes recognized in an entity s financial statements in accordance with SFAS No. 109, Accounting for Income Taxes. It prescribes a recognition threshold and measurement attribute for financial statement disclosure of tax positions taken or expected to be taken on a tax return. This interpretation is effective for fiscal years beginning after December 15, 2006. The Company will be required to adopt this interpretation in the first quarter of fiscal 2008. Management is currently evaluating the requirements of FIN 48 and has not yet determined the impact on the Company s financial condition or results of operations.

3. Stock-Based Compensation

Effective April 2, 2006, the Company adopted SFAS No. 123(R), Share-Based Payment (SFAS 123(R)). SFAS 123(R) requires the Company to measure the cost of all employee stock-based compensation awards that are expected to be exercised based on the grant-date fair value of those awards and to record that cost as compensation expense over the period during which the employee is required to perform service in exchange for the award (generally over the vesting period of the award). SFAS 123(R) addresses all forms of stock-based payment awards, including shares issued under employee stock purchase plans, stock options, restricted stock and stock appreciation rights. In addition, the Company is required to record compensation expense (as previous awards continue to vest) for the unvested portion of previously granted awards that remain outstanding at the date of adoption. The Company implemented the standard using the modified-prospective method and consequently has not retroactively adjusted results for prior periods. The Company previously accounted for stock-based compensation under Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees, (APB 25) and related interpretations, using the intrinsic value method and, as such, generally recognized no compensation cost for employee stock options. Prior to adopting SFAS 123(R), the Company presented all tax benefits resulting from the exercise of stock options as operating cash flows in its statements of cash flows. SFAS 123(R) requires cash flows resulting from excess tax benefits to be classified as a part of cash flows from financing activities. Excess tax benefits are realized tax benefits from tax deductions for exercised options in excess of the deferred tax asset attributable to stock compensation costs for such options. In addition,

the Company provided the required pro forma disclosures related to its stock plans prescribed by SFAS 123 Accounting for Stock-Based Compensation (SFAS 123), as amended by SFAS No. 148, Accounting for Stock-Based Compensation-Transition and Disclosure (SFAS 148).

Under the modified-prospective method of adoption for SFAS 123(R), the compensation cost recognized by the Company beginning in fiscal 2007 includes (a) compensation cost for all stock-based awards granted prior to, but not yet vested as of April 1, 2006, based on the grant-date fair value estimated in accordance with the original provisions of SFAS 123, and (b) compensation cost for all stock-based awards granted subsequent to April 1, 2006, based on the grant-date fair value estimated in accordance with the provisions of SFAS 123(R). The Company uses the straight-line attribution method to recognize stock-based compensation costs over the requisite service period of the award for stock-based awards granted after April 1, 2006. For stock-based awards granted prior to April 2, 2006, the Company continues to use the accelerated amortization method consistent with the amounts disclosed in the pro forma disclosure as prescribed by SFAS 123. Upon exercise, cancellation or expiration of stock options, deferred tax assets for options with multiple vesting dates are eliminated for each vesting period on a first-in, first-out basis as if each award had a separate vesting period. To calculate the excess tax benefits available for use in offsetting future tax shortfalls as of the date of implementation, the Company followed the alternative transition method discussed in FASB Staff Position (FSP) No. 123(R)-3, Transition Election Related to Accounting for Tax Effects of Share-Based Payment Awards (FSP 123(R)-3).

Options currently granted by the Company generally expire ten years from the grant date. Options granted to existing and newly hired employees generally vest over a four-year period from the date of grant.

Stock-based compensation recognized in the first nine months of fiscal 2007 as a result of the adoption of SFAS 123(R) as well as pro forma disclosures according to the original provisions of SFAS 123 for periods prior to the adoption of SFAS 123(R) use the Black-Scholes option pricing model for estimating fair value of options granted under the Company s stock option plans and rights to acquire stock granted under the Company s 1990 Employee Qualified Stock Purchase Plan (Stock Purchase Plan).

The following table summarizes the effects of stock-based compensation resulting from the application of SFAS 123(R) to options granted under the Company s stock option plans and rights to acquire stock granted under the Stock Purchase Plan:

	Three Months Ended		**Nine Months Ended**	
(In thousands, except per share amounts)	**Dec. 30, 2006**	**Dec. 31, 2005**	**Dec. 30, 2006**	**Dec. 31, 2005**
Stock-based compensation included in:				
Cost of revenues	$ 2,292	$	$ 8,360	$
Research and development	10,029		32,203	
Selling, general and administrative	9,123		29,595	
Stock-based compensation related to prior years			2,209	
Stock-based compensation effect on income before taxes	21,444		72,367	
Provision for income taxes	(6,566)		(17,568)	
Net stock-based compensation effect on net income	$ 14,878	$	$ 54,799	$
Stock-based compensation effect on basic net income per common share	$ 0.04	$	$ 0.16	$
Stock-based compensation effect on diluted net income per common share	$ 0.04	$	$ 0.16	$
Stock-based compensation effect on cash flows from operations	$ (5,999)	$	$ (19,056)	$
Stock-based compensation effect on cash flows from financing activities	$ 5,999	$	$ 19,056	$

In June 2006, under the direction of a Special Committee of the Board of Directors, outside counsel commenced an investigation of the Company s historical stock option-granting practices and found no evidence of fraud in the Company s practices in granting of stock options, nor any evidence of manipulation of the timing or exercise price of stock option grants. The investigation further found no issues of management integrity in the issuance of stock options. The investigation determined that in nearly all cases, stock options were issued as of pre-set dates.

Based on the results of the investigation and the Company s analysis of the facts, the Company took a $2.2 million charge to its earnings for the first quarter of fiscal 2007 related to minor differences between recorded grant dates and measurement dates for certain stock option grants between 1997 and 2006. This one-time charge did not have a material effect on the Company s historical financial statements, and, thus, the Company did not restate its financial statements for prior years. See Note 14 for additional information about the conclusion of the investigation, which arose in response to the stockholder derivative complaints and a notification by the U.S. Securities and Exchange Commission (SEC) of an informal inquiry into the Company s historical stock option-granting practices. The SEC subsequently terminated its informal inquiry of the Company s stock option-granting practices and the stockholder derivative complaints were consolidated and subsequently dismissed.

In accordance with SFAS 123(R), the Company adjusts stock-based compensation on a quarterly basis for changes to the estimate of expected equity award forfeitures based on actual forfeiture experience. The effect of adjusting the forfeiture rate for all expense amortization after April 1, 2006 is recognized in the period the forfeiture estimate is changed. The effect of forfeiture adjustments in the first nine months of fiscal 2007 was insignificant.

The amount that the Company would have capitalized to inventory as of April 1, 2006, if it had applied the provisions of SFAS 123(R) retrospectively, was $4.5 million. Under the provisions of SFAS 123(R), this $4.5 million has been recorded as a credit to additional paid-in-capital. The total stock-based compensation released from the inventory capitalization during the third quarter of fiscal 2007 was $400 thousand ($2.1 million for the first nine months of fiscal 2007), which resulted in an ending inventory balance of $2.4 million related to stock-based compensation at December 30, 2006. During the third quarter of fiscal 2007, the tax benefit realized for the tax deduction from option exercises and other awards totaled $6.7 million ($20.0 million for the first nine months of fiscal 2007). As of December 30, 2006, total unrecognized stock-based compensation costs related to stock options and Stock Purchase Plan was $102.3 million and $22.2 million, respectively. The total unrecognized stock-based compensation cost for stock options and Stock Purchase Plan is expected to be recognized over a weighted-average period of 2.6 years and 0.9 years, respectively.

Prior to the adoption of SFAS 123(R), the Company adopted the disclosure-only alternative allowed under SFAS 123, as amended by SFAS 148. Stock-based compensation expense recognized under SFAS 123(R) was not reflected in the Company s results of operations for the three and nine months ended December 31, 2005 for stock option awards as all options were granted with an exercise price equal to the market value of the underlying common stock on the date of grant. In addition, the Stock Purchase Plan was deemed non-compensatory under the provisions of APB 25. Forfeitures of awards were recognized as they occurred for the period prior to the adoption.

Pro forma information required under SFAS 123 for periods prior to fiscal 2007 as if the Company had applied the fair value recognition provisions of SFAS 123 to stock-based compensation, was as follows:

(In thousands, except per share amounts)	**Three Months Ended Dec. 31, 2005**	**Nine Months Ended Dec. 31, 2005**
Net income as reported	$ 80,969	$ 243,408
Deduct: Stock-based employee compensation expense determined under fair value method for all awards, net of tax	(21,380)	(62,327)
Pro forma net income	$ 59,589	$ 181,081
Net income per share:		
Basic-as reported	$ 0.23	$ 0.70
Basic-pro forma	$ 0.17	$ 0.52
Diluted-as reported	$ 0.23	$ 0.68
Diluted-pro forma	$ 0.17	$ 0.50

The fair values of stock options and stock purchase plan rights under the Company s stock option plans and Stock Purchase Plan were estimated as of the grant date using the Black-Scholes option pricing model. In the first quarter of fiscal 2006, the Company modified its volatility assumption to use implied volatility for options granted. Previously, the Company used only historical volatility in deriving its volatility assumption. Management determined that implied volatility is more reflective of market conditions and a better indicator of expected volatility than historical volatility. The expected life of options granted is based on the historical exercise activity as well as the expected disposition of all options outstanding. Calculated under SFAS 123(R) (SFAS 123 for fiscal 2006), the per share weighted-average fair values of stock options granted during the third quarter of fiscal 2007 was $9.19 ($7.80 for the third quarter of fiscal 2006) and for the first nine months of fiscal 2007 was $9.03 ($7.91 for the first nine months of fiscal 2006). The fair value of stock options granted in fiscal 2007 and 2006 were estimated at the date of grant using the following weighted-average assumptions:

	Three Months Ended		Nine Months Ended	
	Dec. 30, 2006	Dec. 31, 2005	Dec. 30, 2006	Dec. 31, 2005
Expected life of options (years)	6.4	5.0	6.3 to 6.4	4.9 to 5.0
Expected stock price volatility	0.33 to 0.35	0.31 to 0.33	0.33 to 0.39	0.29 to 0.36
Risk-free interest rate	4.4% to 4.7 %	4.3% to 4.5 %	4.4% to 5.2 %	3.7% to 4.5 %
Dividend yield	1.5 %	1.1 %	1.5% to 1.6 %	1.0% to 1.1 %

Under the Company s Stock Purchase Plan, shares are only issued during the second and fourth quarters of each fiscal year. The per share weighted-average fair values of stock purchase rights granted under the Stock Purchase Plan during the third quarter of fiscal 2007 and 2006 were $5.95 and $7.47, respectively. The fair value of stock purchase plan rights granted in the third quarter of fiscal 2007 and 2006 were estimated at the date of grant using the following weighted-average assumptions:

	2007	2006
Expected life of options (years)	0.5 to 2.0	0.5 to 2.0
Expected stock price volatility	0.37 to 0.38	0.27 to 0.30
Risk-free interest rate	5.0% to 5.1 %	3.6% to 4.0 %
Dividend yield	1.6% to 1.8 %	1.4 %

Options outstanding that have vested and are expected to vest in future periods as of December 30, 2006 are as follows:

(Shares and intrinsic value in thousands)	Number of Shares	Weighted-Average Exercise Price Per Share	Weighted-Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value (1)
Vested (i.e. exercisable)	42,552	$ 32.26	4.54	$ 97,456
Expected to vest	14,454	$ 26.99	8.65	6,261
Total vested and expected to vest	57,006	$ 30.76	5.59	$ 103,717
Total outstanding	57,992	$ 30.83	5.64	$ 104,270

(1) These amounts represent the difference between the exercise price and $23.81, the closing price per share of Xilinx s stock on December 29, 2006, for all in-the-money options outstanding.

Options outstanding that are expected to vest are net of estimated future option forfeitures in accordance with the provisions of SFAS 123(R), which are estimated when compensation costs are recognized. Options with a fair value of $27.1 million completed vesting during the third quarter of fiscal 2007 and options with a fair value of $77.9 million completed vesting during the first nine months of fiscal 2007.

A summary of the Company s option plans activity and related information are as follows:

(Shares in thousands)	Shares Available for Options	Options Outstanding Number of Shares	Weighted-Average Exercise Price Per Share
April 2, 2005	33,754	60,643	$ 30.18
Granted	(8,489)	8,489	$ 25.91
Exercised		(6,090)	$ 11.71
Forfeited/cancelled/expired	3,212	(3,212)	$ 38.64
April 1, 2006	28,477	59,830	$ 30.99
Granted	(7,691)	7,691	$ 23.30
Exercised		(4,784)	$ 14.02
Forfeited/cancelled/expired	4,745	(4,745)	$ 37.60
December 30, 2006	25,531	57,992	$ 30.83

The total pre-tax intrinsic value of options exercised during the three and nine months ended December 30, 2006 was $18.1 million and $53.7 million, respectively. This intrinsic value represents the difference between the fair market value of the Company s common stock on the date of exercise and the exercise price of each option.

Since the Company adopted the policy of retiring all repurchased shares of its common stock, new shares are issued upon employees exercise of their stock options.

On July 26, 2006, the stockholders approved the adoption of the 2007 Equity Incentive Plan and authorized 10.0 million shares to be reserved for issuance thereunder. Since the new plan is not effective until January 1, 2007, the 10.0 million shares to be reserved for issuance are not included as shares available for options in the table above. The 2007 Equity Incentive Plan will replace the Company s 1997 Stock Option Plan (which expires on May 6, 2007) and the Supplemental Stock Option Plan. See Appendix A to the Company s 2006 Proxy Statement for the full text of the 2007 Equity Incentive Plan.

Under the Stock Purchase Plan, employees purchased 885 thousand shares for $15.3 million in the second quarter of fiscal 2007 and 631 thousand shares for $15.2 million in the second quarter of fiscal 2006. No shares were issued during the first or third quarters of fiscal 2007 or 2006. The next scheduled purchase under the Stock Purchase Plan is in the fourth quarter of fiscal 2007. On July 26, 2006, the stockholders approved an amendment to increase the authorized number of shares available for issuance under the Stock Purchase Plan by 2.0 million shares. At December 30, 2006, 9.1 million shares were available for future issuance out of 36.5 million shares authorized.

4. 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 total shares used in the denominator of the diluted net income per common share calculation includes 5.6 million and 5.8 million common equivalent shares attributable to outstanding stock options for the third quarter and the first nine months of fiscal 2007, respectively, that are not included in basic net income per common share. For the third quarter and the first nine months of fiscal 2006, the total shares used in the denominator of the diluted net income per common share calculation includes 5.0 million and 6.2 million common equivalent shares attributable to outstanding stock options, respectively.

Outstanding out-of-the-money stock options to purchase approximately 41.0 million and 40.8 million shares, for the third quarter and the first nine months of fiscal 2007, respectively, under the Company s stock option plans were excluded from diluted net income per common share, applying the treasury stock method, as their inclusion would have been antidilutive. These options 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. For the third quarter and the first nine months of fiscal 2006, respectively, 37.6 million and 31.3 million of the Company s stock options outstanding were excluded from the calculation.

5. Inventories

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

(In thousands)	Dec. 30, 2006	April 1, 2006
Raw materials	$ 30,180	$ 10,390
Work-in-process	110,324	137,939
Finished goods	44,728	52,700
	$ 185,232	$ 201,029

6. Investment in United Microelectronics Corporation

At December 30, 2006, the fair value of the Company s equity investment in United Microelectronics Corporation (UMC) stock totaled $72.3 million on the Company s condensed consolidated balance sheet. The Company accounts for its investment in UMC as available-for-sale marketable securities in accordance with SFAS 115, Accounting for Certain Debt and Equity Securities.

The following table summarizes the cost basis and fair values of the investment in UMC:

(In thousands)	Dec. 30, 2006 Adjusted Cost	Fair Value	April 1, 2006 Adjusted Cost	Fair Value
Current portion	$	$	$ 32,235	$ 37,285
Long-term portion	62,537	72,284	206,807	239,209
Total investment	$ 62,537	$ 72,284	$ 239,042	$ 276,494

During the third quarter of fiscal 2007, the Company sold 20.4 million shares of its UMC investment for approximately $12.1 million in cash, resulting in a gain of approximately $1.0 million. During the first nine months of fiscal 2007, the Company sold 325.9 million shares of its UMC investment for approximately $183.5 million in cash, resulting in a gain of approximately $7.0 million. The gains are included in interest income and other, net in the consolidated statements of income.

During the first nine months of fiscal 2007, the fair value of the UMC investment decreased by $204.2 million, including the sale of shares noted above. The fair value of the Company s total UMC investment decreased by $4.4 million during the three months ended December 30, 2006, including the sale of shares noted above. At December 30, 2006, the Company recorded a total of $3.7 million of deferred tax liabilities and a $6.0 million balance (net of tax) in accumulated other comprehensive income associated with the UMC investment.

7. Common Stock Repurchase Programs

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 financial institutions. During the first quarter of fiscal 2007, the Company completed its $350.0 million repurchase program announced in April 2005 by repurchasing 2.8 million shares for $73.9 million. On February 9, 2006, the Board authorized the repurchase of up to an additional $600.0 million of common stock. This share repurchase program has no stated expiration date. Through December 30, 2006, the Company had repurchased $326.1 million of the $600.0 million of common stock approved for repurchase under the February 2006 authorization. Between both repurchase programs the Company repurchased a total of $400.0 million of common stock during the nine months ended December 30, 2006. Beginning with the third quarter of fiscal 2006, the Company adopted the policy of retiring all repurchased shares, and consequently, no treasury shares were held at December 30 or April 1, 2006.

During the first nine months of fiscal 2007 and 2006, the Company entered into stock repurchase agreements with independent financial institutions. Under these agreements, Xilinx provided these financial institutions with up-front payments totaling $150.0 million for the third quarter of fiscal 2007 ($350.0 million for the first nine months of fiscal 2007) and $125.0 million for the third quarter of fiscal 2006 ($225.0 million for the first nine months of fiscal 2006). These financial institutions agreed to deliver to Xilinx a certain number of shares based upon the volume weighted-average price, during the contract period, less a specified discount. As of December 30, 2006 and December 31, 2005, no up-front payment balances remained under these agreements. In addition, under the

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guidelines of Rule 10b5-1 under the U.S. Securities Exchange Act of 1934, as amended, Xilinx entered into other agreements with the same independent financial institutions within the first and second quarters of fiscal 2007 and 2006 to repurchase additional shares on its behalf. No additional shares were repurchased in the third quarter of fiscal 2007 or 2006 after the conclusion of the aforementioned agreements.

During the third quarter and the first nine months of fiscal 2007, the Company repurchased a total of 5.9 million and 16.5 million shares of common stock for $150.0 million and $400.0 million, respectively, including the amounts purchased by the financial institutions and remitted to the Company. During the third quarter and the first nine months of fiscal 2006, the Company repurchased a total of 5.0 million and 10.5 million shares of common stock for $125.0 million and $274.9 million, respectively, including the amounts purchased by the financial institutions and remitted to the Company.

8. Impairment Loss

The Company recognized impairment losses on investments of $1.5 million and $2.0 million during the third quarter and the first nine months of fiscal 2007, respectively, related to non-marketable equity securities in private companies. These impairment losses resulted from certain investees diluting Xilinx s investment through the receipt of additional rounds of investment at a lower per share price.

9. Comprehensive Income

The components of comprehensive income are as follows:

	Three Months Ended		Nine Months Ended	
(In thousands)	**Dec. 30, 2006**	**Dec. 31, 2005**	**Dec. 30, 2006**	**Dec. 31, 2005**
Net income	$ 87,509	$ 80,969	$ 263,046	$ 243,408
Net change in unrealized gain (loss) on available- for-sale securities, net of tax	3,872	(27,074)	(13,952)	(3,598)
Reclassification adjustment for losses on available-for-sale securities, net of tax, included in earnings	598	68	3,053	680
Net change in unrealized gain (loss) on hedging transactions, net of tax	63	(331)	(113)	(751)
Net change in cumulative translation adjustment	636	(1,248)	1,885	(1,979)
Comprehensive income	$ 92,678	$ 52,384	$ 253,919	$ 237,760

The components of accumulated other comprehensive income at December 30, 2006 and April 1, 2006 are as follows:

(In thousands)	**Dec. 30, 2006**	**April 1, 2006**
Accumulated unrealized gain on available-for-sale securities, net of tax	$ 3,898	$ 14,797
Accumulated unrealized gain on hedging transactions, net of tax	5	118
Accumulated cumulative translation adjustment	2,779	894
Accumulated other comprehensive income	$ 6,682	$ 15,809

The change in the accumulated unrealized gain on available-for-sale securities, net of tax, at December 30, 2006, primarily reflects the decrease in value of the UMC investment since April 1, 2006 (see Note 6). In addition, the unrealized loss on the Company s short-term and long-term investments decreased by $10.2 million during the nine months ended December 30, 2006.

10. Significant Customers and Concentrations of Credit Risk

In July 2005, two of the Company s distributors, Avnet, Inc. (Avnet) and the Memec Group (Memec), consolidated and merged into one entity, with Avnet as the surviving company. As of December 30, 2006, the combined Avnet/Memec entity accounted for 86% of the Company s total accounts receivable. Resale of product

through this combined entity accounted for 64% and 67% of the Company s worldwide net revenues in the third quarter and the first nine months of fiscal 2007, respectively. Had this acquisition been completed for all periods presented, resale of product through this combined entity would have accounted for 69% and 71% of the Company s worldwide net revenues in the third quarter and the first nine months of fiscal 2006, respectively.

Xilinx is subject to concentrations of credit risk primarily in its trade accounts receivable and investments in debt securities to the extent of the amounts recorded on the condensed consolidated balance sheet. The Company attempts to mitigate the concentration of credit risk in its trade receivables through its credit evaluation process, collection terms, distributor sales to diverse end customers and through geographical dispersion of sales. During the third quarter of fiscal 2007, the Company obtained credit insurance for a portion of its accounts receivable balance to further mitigate the concentration of its credit risk. 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 investing more than 80% of its portfolio in AA or higher grade securities as rated by Standard & Poor s. Additionally, Xilinx limits its investments in the debt securities of a single issuer and attempts to further mitigate credit risk by diversifying risk across geographies and type of issuer.

11. Income Taxes

The Company recorded tax provisions of $15.6 million and $66.8 million for the third quarter and the first nine months of fiscal 2007, respectively, representing effective tax rates of 15% and 20%, respectively. The Company recorded tax provisions of $49.8 million and $85.4 million for the third quarter and the first nine months of fiscal 2006, respectively, representing effective tax rates of 38% and 26%, respectively.

When compared to the third quarter of fiscal 2006, the lower effective tax rate for the third quarter of fiscal 2007 was primarily due to a decrease in the net charge to income tax expense for items unique to the quarter. The effective tax rate also benefited from an increase in the portion of income earned in lower tax rate jurisdictions. However, this benefit was partially offset by certain non-deductible stock-based compensation expenses. In the third quarter of fiscal 2007, the Company recorded a $1.3 million tax benefit for federal research and development (R&D) tax credits for the fourth quarter of fiscal 2006 and reduced its estimated effective tax rate for fiscal 2007 by approximately one percentage point due to the retroactive re-enactment of the federal R&D tax credit on December 20, 2006. In addition, the Company recorded a $1.2 million tax benefit for adjustments to the estimated fiscal 2006 tax accruals upon filing its 2006 U.S. federal income tax return.

During the third quarter of fiscal 2006, the Company s Chief Executive Officer and its Board of Directors approved a $500.0 million repatriation dividend from its foreign subsidiaries that qualified for the 85% dividends received deduction under the provisions of the American Jobs Creation Act of 2004. The dividend was paid prior to the end of the fourth quarter of fiscal 2006. The tax effect of the repatriation dividend recorded in the third quarter of fiscal 2006 resulted in a net increase in federal and state tax (net of federal benefit) of $25.3 million. The negative effects were partially offset by approximately $5.9 million in tax benefit related to the recognition of deferred tax assets for state R&D tax credits where the Company determined that it was more likely than not that the asset would be realized. The Company also recorded a $1.4 million tax benefit for the adjustment to estimated fiscal 2005 tax accruals upon filing the 2005 U.S. federal income tax return and a $2.3 million tax benefit related to the release of reserves due to the expiration of the federal statute of limitations for fiscal 2002. Also included in the first nine months of fiscal 2006 was a net tax benefit of $8.0 million ($9.4 million offset by taxes of $1.4 million on interest income) related to a favorable U.S. Tax Court (Tax Court) decision.

The difference between the U.S. federal statutory tax rate of 35% and the Company s effective tax rate is 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 was examined by the Internal Revenue Service (IRS) for its fiscal 1996 through 2001 tax years. All issues were settled with the exception of issues related to the cost sharing of stock options. On August 30, 2005, the Tax Court issued its opinion concerning whether the value of stock options must be included in the cost sharing agreement with Xilinx Ireland. The Tax Court agreed with the Company that no amount for stock options was to be included in the cost sharing agreement, and thus, the Company had no tax, interest or penalties due for this issue. The decision was entered by the Tax Court on May 31, 2006. On August 25, 2006, the IRS appealed the decision to the Ninth Circuit Court of Appeals. The Company intends to oppose this appeal as it believes that

the Tax Court decided the case correctly. Management has assessed the risk of loss, and determined that no accrual is required. If the Company were to lose on appeal, the amount due to the IRS would be approximately $39.3 million. Of that amount, only $6.2 million would be an expense to the consolidated statement of income and the remaining $33.1 million would be an adjustment to additional paid-in capital. The Company would also be required to reverse $3.2 million of interest income accrued to date on prepayments to the IRS.

12. Commitments

Xilinx leases some of its facilities and office buildings under non-cancelable operating leases that expire at various dates through July 2016. During the third quarter of fiscal 2006, Xilinx entered into a land lease in conjunction with the Company s new building investment in Singapore. 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.

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

Years ending March 31,	(In thousands)
2007 (remaining three months)	$ 2,265
2008	7,044
2009	5,759
2010	4,237
2011	2,978
Thereafter	3,306
	$ 25,589

Most of the Company s leases contain renewal options for varying terms. Rent expense, net of rental income, under all operating leases was $2.0 million and $5.9 million for the third quarter and the first nine months of fiscal 2007, respectively. Rent expense, net of rental income, under all operating leases was $1.5 million and $4.9 million for the third quarter and the first nine months of fiscal 2006, respectively.

In November 2005, Xilinx made an investment commitment of $37.0 million for a new building in Singapore, the Company s Asia Pacific regional headquarters. As of December 30, 2006, approximately $24.0 million of the Company s investment commitment remains outstanding. The project is expected to be completed in June 2007.

Other commitments at December 30, 2006 totaled $74.4 million and consisted of purchases of inventory and other non-cancelable purchase obligations related to subcontractors that manufacture silicon wafers and provide assembly and some test services. The Company expects to receive and pay for these materials and services in the next three to six months, as the products meet delivery and quality specifications. As of December 30, 2006, the Company also has $24.0 million of non-cancelable license obligations to providers of electronic design automation software expiring at various dates through December 2010.

In the fourth quarter of fiscal 2005, the Company committed up to $20.0 million to acquire, in the future, rights to intellectual property until July 2023. License payments will be amortized over the useful life of the intellectual property acquired.

13. Product Warranty and Indemnification

The Company generally sells products with a limited warranty for product quality. The Company provides for known product issues if a loss is probable and can be reasonably estimated. The warranty accrual and related provision for known product issues increased in the first quarter of fiscal 2007 predominantly due to a specific quality issue with one of our vendors. The following table presents a reconciliation of the Company s product warranty liability, which is included in other accrued liabilities on the Company s condensed consolidated balance sheets:

(In thousands)	Nine Months Ended Dec. 30, 2006	Dec. 31, 2005
Balance at beginning of period	$ 893	$
Provision	2,614	1,649
Utilized	(3,041)	(551)
Balance at end of period	$ 466	$ 1,098

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The Company generally sells its products with a limited indemnification of customers against intellectual property infringement claims related to the Company s products. Xilinx has historically received only a limited number of requests for indemnification under these provisions and has not been requested to make any significant payments pursuant to these provisions.

14. Contingencies

Internal Revenue Service

On August 25, 2006, the IRS filed a Notice of Appeal that it appeals to the U.S. Court of Appeal for the Ninth Circuit, the August 30, 2005 decision of the Tax Court. In its 2005 decision, the Tax Court decided in favor of the Company and rejected the IRS s position that the value of compensatory stock options must be included in the Company s cost sharing agreement with its Irish affiliate. The Company intends to oppose this appeal as it believes that the Tax Court decided the case correctly. Management has assessed the risk of loss, and determined that no accrual is required (see Note 11).

The IRS recently notified the Company that they will audit the Company s fiscal 2005 income tax return. The Company believes that adequate amounts have been reserved for any adjustments which may ultimately result.

Other than as stated above, the Company knows of no legal proceedings contemplated by any governmental authority or agency against the Company.

Patent Litigation

On October 17, 2005, a patent infringement lawsuit was filed by Lizy K. John (John) against Xilinx in the U.S. District Court for the Eastern District of Texas, Marshall Division. John sought an injunction, unspecified damages and attorneys fees.

On November 27, 2006, the Company settled the patent infringement lawsuit with John, under which the Company agreed to pay $6.5 million. John agreed to dismiss the patent infringement lawsuit with prejudice, granted a patent license to the Company and executed an agreement not to sue the Company under any patent owned or controlled by John for ten years. As a result of the settlement agreement, the Company recorded a current period charge of $2.5 million during the third quarter of fiscal 2007. The remaining balance of $4.0 million represented the value of the prepaid patent license granted as part of the settlement. This balance will be amortized over the asset s remaining useful life.

SEC Informal Inquiry

On June 22, 2006, the Company received notice from the SEC advising that the SEC had commenced an informal inquiry into the Company s historical stock option-granting practices. The notice included an informal request for documents. Based on the results of the investigation performed by outside counsel at the direction of a Special Committee of the Board of Directors and the Company s analysis of the facts, the Company took a $2.2 million charge to its earnings for the first quarter of fiscal 2007. The charge was based on the difference between recorded grant dates and measurement dates in certain stock option grants between 1997 and 2006. The investigation found no evidence of fraud in the Company s practices in granting of stock options, nor any evidence of manipulation of the timing or exercise price of stock option grants. The investigation further found no issues of management integrity in the issuance of stock options. The investigation determined that in nearly all cases, stock options were issued as of pre-set dates. The Special Committee and the Board of Directors declared the investigation to be concluded.

On November 28, 2006, the SEC formally notified the Company that its investigation of the Company s stock option granting practices was terminated and that no enforcement action was recommended.

Stockholder Derivative Lawsuits

On June 2, 2006, a Xilinx stockholder filed a derivative complaint in the U.S. District Court for the Northern District of California (*Murphy v. Roelandts et al.*, Case No. C 06 3564 RMW), purportedly on behalf of the Company, against members of the Company s Board of Directors and against certain of the Company s officers. The complaint alleged, among other things, that defendants mismanaged corporate assets and breached their fiduciary duties between 1998 and the date of filing by authorizing or failing to halt the backdating of certain

stock options. The complaint also alleged that the officer defendants were unjustly enriched by their receipt and retention of the backdated stock option grants and that the Company issued false and misleading proxy statements in fiscal 2002 and 2003.

On June 28, 2006, a second Xilinx stockholder filed a separate, but substantially similar, derivative complaint in the U.S. District Court for the Northern District of California (*Blum v. Roelandts et al.*, Case No. C 06 4016 JW), purportedly on behalf of the Company, against members of the Company s Board of Directors and against certain of the Company s officers. The complaint alleged, among other things, that defendants mismanaged corporate assets and breached their fiduciary duties between 1998 and the date of filing by authorizing or failing to halt the backdating of certain stock options. The complaint also alleged that defendants were unjustly enriched by the receipt and retention of the backdated stock option grants and that certain of the defendants sold Xilinx stock for a profit while in possession of material, non-public information. The complaint also alleged that the Company issued false and misleading financial disclosures and proxy statements from fiscal 1998 through 2006. In addition, the complaint alleged that defendants engaged in a fraudulent scheme to divert millions of dollars to themselves via improper option grants.

The two stockholder derivative complaints were consolidated into one stockholder derivative case. The consolidated stockholder derivative case was subsequently dismissed by the U.S. District Court for the Northern District of California (see Note 16).

Other Matters

Except as stated above, there are no pending legal proceedings of a material nature to which the Company is a party or of which any of its property is the subject.

15. Goodwill and Acquisition-Related Intangibles

As of December 30, 2006 and April 1, 2006, the gross and net amounts of goodwill and of acquisition-related intangibles for all acquisitions were as follows:

(In thousands)	**Dec. 30, 2006**	**April 1, 2006**	**Amortization Life**
Goodwill-gross	$ 176,422	$ 176,608	
Less accumulated amortization through fiscal 2002	51,524	51,524	
Goodwill-net	$ 124,898	$ 125,084	
Noncompete agreements-gross	$ 24,304	$ 24,304	2.5 to 3 years
Less accumulated amortization	24,304	24,116	
Noncompete agreements-net		188	
Patents-gross	22,752	22,752	5 to 7 years
Less accumulated amortization	17,861	15,288	
Patents-net	4,891	7,464	
Miscellaneous intangibles-gross	58,958	58,958	2 to 5 years
Less accumulated amortization	47,283	43,959	
Miscellaneous intangibles-net	11,675	14,999	
Total acquisition-related intangibles-gross	106,014	106,014	
Less accumulated amortization	89,448	83,363	
Total acquisition-related intangibles-net	$ 16,566	$ 22,651	

The goodwill balance at December 30, 2006, compared to the balance at April 1, 2006, reflects the reduction for a tax adjustment related to RocketChips goodwill.

Amortization expense for all intangible assets for the third quarter and the first nine months of fiscal 2007 was $2.0 million and $6.1 million, respectively. For the third quarter and the first nine months of fiscal 2006, amortization expense for all intangible assets was $1.5 million and $5.1 million, respectively. Intangible assets are amortized on a straight-line basis. Based on the carrying value of acquisition-related intangibles recorded at December 30, 2006, and assuming no subsequent impairment of the underlying assets, the annual amortization

expense for acquisition-related intangibles is expected to be as follows: fiscal 2007 (remaining three months) - $1.9 million; 2008 - $6.8 million; 2009 - $5.4 million; 2010 - $1.5 million; 2011 - $1.0 million.

16. Subsequent Event

On January 8, 2007, the U.S. District Court for the Northern District of California dismissed the consolidated stockholder derivative lawsuit that was filed against members of the Company s Board of Directors and certain of the Company s officers.

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. Forward-looking statements can often be identified by the use of forward-looking words, such as may, will, could, should, expect, believe, anticipate, estimate, continue, plan, intend, project or other similar words. We disclaim any responsibility to update any forward-looking statement provided in this document.

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 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 and non-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 including acquisition-related intangibles, 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 consolidated balance sheet, and valuation and recognition of stock-based compensation, which impacts gross margin, research and development expenses, and selling, general and administrative expenses. Below, we discuss these policies further, as well as the estimates and judgments involved. 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.

Valuation of Marketable and Non-marketable Securities

The Company s short-term and long-term investments include marketable debt and equity securities and non-marketable equity securities. At December 30, 2006, the Company had debt securities with a fair value of $1.7 billion, an equity investment in UMC, a publicly-held Taiwanese semiconductor wafer manufacturing company, of $72.3 million, and strategic investments in non-marketable equity securities of $17.3 million.

The fair values for marketable debt and equity securities are based on quoted market prices. In determining if and when a decline in market value below adjusted cost of marketable debt and equity securities is other-than-temporary, the Company evaluates quarterly the market conditions, trends of earnings, financial condition and other key measures for our investments. Xilinx adopted the provisions of FSP No. FAS 115-1, The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments (FSP 115-1), on January 1, 2006. Beginning in the fourth quarter of fiscal 2006, we assessed other-than-temporary impairment of debt and equity securities in accordance with FSP 115-1. We have not recorded any other-than-temporary impairment for marketable debt and equity securities for fiscal 2007 or 2006.

In determining whether a decline in value of non-marketable equity investments in private companies is other-than-temporary, the assessment is made by considering available evidence including the general market conditions in the investee s industry, the investee s product development status, the investee s ability to meet business milestones and the financial condition and near-term prospects of the individual investee, including the rate at which the investee is

using its cash and the investee s need for possible additional funding at a lower valuation. When a decline in value is deemed to be other-than-temporary, the Company recognizes an impairment loss in the current period s operating results to the extent of the decline.

Revenue Recognition

Sales to distributors are made under agreements providing distributor price adjustments and rights of return under certain circumstances. Revenue and costs relating to distributor sales are deferred until products are sold by the distributors to the distributor s end customers. For the first nine months of fiscal 2007, approximately 85% of our net revenues were from products sold to distributors for subsequent resale to original equipment manufacturers (OEMs) or their subcontract manufacturers. Revenue recognition depends on notification from the distributor that product has been sold to the distributor s end customer. Also reported by the distributor are product resale price, quantity and end customer shipment information, as well as inventory on hand. Reported distributor inventory on hand is reconciled to deferred revenue balances monthly. We maintain system controls to validate distributor data and verify that the reported information is accurate. Deferred income on shipments to distributors reflects the effects of distributor price adjustments and the amount of gross margin expected to be realized when distributors sell through product purchased from the Company. Accounts receivable from distributors are recognized and inventory is relieved when title to inventories transfers, typically upon shipment from Xilinx at which point we have a legally enforceable right to collection under normal payment terms.

Revenue from sales to our direct customers is recognized upon shipment provided that persuasive evidence of a sales arrangement exists, the price is fixed, title has transferred, collection of resulting receivables is reasonably assured, and there are no customer acceptance requirements and no remaining significant obligations. For each of the periods presented, there were no formal acceptance provisions with our direct customers.

Revenue from software term licenses is deferred and recognized as revenue over the term of the licenses of one year. Revenue from support services is recognized when the service is performed. Revenue from Support Products, which includes software and services sales, was less than 7% of net revenues for all of the periods presented.

Allowances for end customer sales returns are recorded based on historical experience and for known pending customer returns or allowances.

Valuation of Inventories

Inventories are stated at the lower of actual cost (determined using the first-in, first-out method) or market (estimated net realizable value). The valuation of inventory requires us to estimate excess or obsolete inventory as well as inventory that is not of saleable quality. We review and set standard costs quarterly to approximate current actual manufacturing costs. Our manufacturing overhead standards for product costs are calculated assuming full absorption of forecasted spending over projected volumes, adjusted for excess capacity. Given the cyclicality of the market, the obsolescence of technology and product lifecycles, we write down inventory based on forecasted demand and technological obsolescence. These factors are impacted by market and economic conditions, technology changes, new product introductions and changes in strategic direction and require estimates that may include uncertain elements. The estimates of future demand that we use in the valuation of inventory are the basis for our published revenue forecasts, which are also consistent with our short-term manufacturing plans. If our demand forecast for specific products is greater than actual demand and we fail to reduce manufacturing output accordingly, we could be required to write down additional inventory, which would have a negative impact on our gross margin.

Impairment of Long-Lived Assets Including Acquisition-Related Intangibles

Long-lived assets and certain identifiable intangible assets to be held and used are reviewed for impairment if indicators of potential impairment exist. Impairment indicators are reviewed on a quarterly basis. When indicators of impairment exist and assets are held for use, we estimate future undiscounted cash flows attributable to the assets. In the event such cash flows are not expected to be sufficient to recover the recorded value of the assets, the assets are written down to their estimated fair values based on the expected discounted future cash flows attributable to the assets or based on appraisals. Factors affecting impairment of assets held for use include the ability of the specific assets to generate positive cash flows.

When assets are removed from operations and held for sale, we estimate impairment losses as the excess of the carrying value of the assets over their fair value. Factors affecting impairment of assets held for sale include market conditions. Changes in any of these factors could necessitate impairment recognition in future periods for assets held for use or assets held for sale.

Goodwill

As required by SFAS No. 142, Goodwill and Other Intangible Assets (SFAS 142), goodwill is not amortized but is subject to impairment tests on an annual basis, or more frequently if indicators of potential impairment exist, and goodwill is written down when it is determined to be impaired. We perform an annual impairment review in the fourth quarter of each year and compare the fair value of the reporting unit in which the goodwill resides to its carrying value. If the carrying value exceeds the fair value, the goodwill of the reporting unit is potentially impaired. For purposes of impairment testing under SFAS 142, Xilinx operates as a single reporting unit. We use the quoted market price method to determine the fair value of the reporting unit. Based on the impairment review performed during the fourth quarter of fiscal 2006, there was no impairment of goodwill in fiscal 2006. Unless there are indicators of impairment, our next impairment review for RocketChips, Triscend, Hier Design Inc. (HDI) and AccelChip, Inc. (AccelChip) goodwill will be performed and completed in the fourth quarter of fiscal 2007. To date, no impairment indicators have been identified.

Accounting for Income Taxes

Xilinx is a multinational corporation operating in multiple tax jurisdictions. We must determine the allocation of income to each of these jurisdictions based on estimates and assumptions and apply the appropriate tax rates for these jurisdictions. We undergo routine audits by taxing authorities regarding the timing and amount of deductions and the allocation of income among various tax jurisdictions. Tax audits often require an extended period of time to resolve and may result in income tax adjustments if changes to the allocation are required between jurisdictions with different tax rates.

In determining income for financial statement purposes, we must make certain estimates and judgments. These estimates and judgments occur in the calculation of certain tax liabilities and in the determination of the recoverability of certain deferred tax assets, which arise from temporary differences between the tax and financial statement recognition of revenue and expense. Additionally, we must estimate the amount and likelihood of potential losses arising from audits or deficiency notices issued by taxing authorities. The taxing authorities positions and our assessment can change over time resulting in a material effect on the provision for income taxes in periods when these changes occur.

We must also assess the likelihood that we will be able to recover our deferred tax assets. If recovery is not likely, we must increase our provision for taxes by recording a reserve in the form of a valuation allowance for the deferred tax assets that we estimate will not ultimately be recoverable.

On November 10, 2005, the FASB issued FSP 123(R)-3. The Company has elected to adopt the alternative transition method provided in FSP 123(R)-3 for calculating the tax effects of stock-based compensation pursuant to SFAS 123(R). The alternative transition method includes simplified methods to establish the beginning balance of the APIC pool related to the tax effects of employee stock-based compensation, and to determine the subsequent impact on the APIC pool and consolidated statements of cash flows of the tax effects of employee stock-based compensation awards that are outstanding upon adoption of SFAS 123(R).

Stock-Based Compensation

In the first quarter of fiscal 2007, we adopted SFAS 123(R), which requires the measurement at fair value and recognition of compensation expense for all stock-based payment awards. Total stock-based compensation during the first nine months of fiscal 2007 related to the adoption of SFAS 123(R) was $70.2 million, excluding one-time expense of $2.2 million relating to prior years under the provisions of APB 25.

Determining the appropriate fair-value model and calculating the fair value of stock-based awards at the date of grant requires judgment. We use the Black-Scholes option pricing model to estimate the fair value of employee stock options and rights to purchase shares under the Stock Purchase Plan, consistent with the provisions of SFAS 123(R). Option pricing models, including the Black-Scholes model, also require the use of input assumptions, including expected stock price volatility, expected life, expected dividend rate and expected risk-free rate of return. We use implied volatility based on traded options in the open market as we believe implied volatility is more reflective of market conditions and a better indicator of expected volatility than historical volatility. In determining the appropriateness of implied volatility, we considered: the volume of market activity of traded options, and determined there was sufficient market activity; the ability to reasonably match the input variables of traded options to those of options granted by the Company, such as date of grant and the exercise price, and determined the input assumptions were comparable; and the length of term of traded options used to derive implied volatility, which is generally one to

two years and were extrapolated to match the expected term of the employee options granted by the Company, and determined the length of the option term was reasonable. The expected life of options granted is based on the historical exercise activity as well as the expected disposition of all options outstanding. We will continue to review our input assumptions and make changes as deemed appropriate depending on new information that becomes available. Higher volatility and expected lives result in a proportional increase to stock-based compensation determined at the date of grant. The expected dividend rate and expected risk-free rate of return are not as significant to the calculation of fair value.

In addition, SFAS 123(R) requires us to develop an estimate of the number of stock-based awards which will be forfeited due to employee turnover. Quarterly changes in the estimated forfeiture rate have an effect on reported stock-based compensation, as the effect of adjusting the rate for all expense amortization after April 1, 2006 is recognized in the period the forfeiture estimate is changed. If the actual forfeiture rate is higher than the estimated forfeiture rate, then an adjustment is made to increase the estimated forfeiture rate, which will result in a decrease to the expense recognized in the financial statements. If the actual forfeiture rate is lower than the estimated forfeiture rate, then an adjustment is made to decrease the estimated forfeiture rate, which will result in an increase to the expense recognized in the financial statements. The effect of forfeiture adjustments in the first, second and third quarters of fiscal 2007 was insignificant. The expense we recognize in future periods could also differ significantly from the current period and/or our forecasts due to adjustments in the assumed forfeiture rates.

Results of Operations: Third quarter and first nine months of fiscal 2007 compared to the third quarter and first nine months of fiscal 2006

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

	Three Months Ended		Nine Months Ended	
	Dec. 30, 2006	Dec. 31, 2005	Dec. 30, 2006	Dec. 31, 2005
Net Revenues	**100.0 %**	**100.0 %**	**100.0 %**	**100.0 %**
Cost of revenues	39.5	37.0	39.3	38.2
Gross Margin	**60.5**	**63.0**	**60.7**	**61.8**
Operating Expenses:				
Research and development	21.3	18.0	20.7	19.1
Selling, general and administrative	20.0	18.0	20.0	18.7
Amortization of acquisition-related intangibles	0.4	0.3	0.4	0.4
Litigation settlements and contingencies	0.6	0.0	0.2	0.3
Stock-based compensation related to prior years	0.0	0.0	0.2	0.0
Total operating expenses	42.3	36.3	41.5	38.5
Operating Income	**18.2**	**26.7**	**19.2**	**23.3**
Impairment loss on investments	(0.3)	0.0	(0.1)	0.0
Interest income and other, net	5.0	2.4	4.5	2.9
Income Before Income Taxes	**22.9**	**29.1**	**23.6**	**26.2**
Provision for income taxes	3.5	11.1	4.8	6.8
Net Income	**19.4 %**	**18.0 %**	**18.8 %**	**19.4 %**

In addition to disclosing financial results calculated in accordance with U.S. GAAP, the Company s results of operations also contain non-GAAP financial measures as shown below that exclude the effects of stock-based compensation and the requirements of SFAS 123(R). The non-GAAP financial measures used by management and disclosed by the Company exclude the statement of income effects of all forms of stock-based compensation and the effects of SFAS 123(R) upon the number of diluted shares used in calculating non-GAAP net income per share. These non-GAAP financial measures are not in accordance with or an alternative for GAAP measures and may be different from, and therefore not comparable to, non-GAAP measures used by other companies. The Company has provided a reconciliation below of the non-GAAP financial measures to the most directly comparable GAAP financial measures. The Company believes that the presentation of these non-GAAP measures, when shown in conjunction with the

corresponding GAAP measures and our reconciliations, provides useful information to management and investors regarding financial and business trends relating to the Company s financial condition and results of operations. The Company s management uses these non-GAAP financial measures, in addition to the corresponding GAAP measures, in its internal reviews of the financial results of the Company, its presentations of results and forecasts to the Board of Directors and its establishment of internal budgets. Management believes that the use of these non-GAAP financial measures provides consistency and comparability with periods prior to the adoption of SFAS 123(R) and facilitates comparisons to internal performance forecasts and comparisons with other companies in our industry that separately identify stock-based compensation. Management further believes that where the adjustments used in calculating non-GAAP net income and non-GAAP net income per share are based on specific, identified charges that impact different line items in the statements of income (including cost of revenues, research and development, and selling, general and administrative expenses), it is useful to investors to know how these specific line items in the statements of income are affected by these adjustments. In particular, the Company believes that it is useful to investors to understand how the expenses associated with the application of SFAS 123(R) are being reflected on the Company s statements of income. By providing diluted net income per share that excludes stock-based compensation, this enables investors to evaluate diluted net income per share compared to prior periods. Especially in the Company s first year of applying the provisions of SFAS 123(R), the Company does not believe that diluted net income per share as reported in its statements of income is comparable to prior year amounts.

The Company applied the modified-prospective method of adoption of SFAS 123(R), under which the effects of stock-based compensation are reflected in the Company s GAAP financial statement presentations for and after the first quarter of fiscal 2007, but are not reflected in results for prior periods. Gross margin, expenses (research and development and selling, general and administrative), operating income, income taxes, net income and net income per share are the primary financial measures that management uses for planning and forecasting future periods which are affected by stock-based compensation. Because management reviews these financial measures calculated without taking into account the effects of the new requirements under SFAS 123(R), these financial measures are treated as non-GAAP financial measures under SEC rules.

The following tables present non-GAAP financial measures, which exclude the effects of stock-based compensation, and reconciliations from the most directly comparable GAAP measure:

(In thousands, except per share amounts)	**Three Months Ended Dec. 30, 2006**	**Nine Months Ended Dec. 30, 2006**
GAAP net income	$ 87,509	$ 263,046
Adjustment for stock-based compensation within:		
Cost of revenues	2,292	8,360
Research and development	10,029	32,203
Selling, general and administrative	9,123	29,595
Stock-based compensation related to prior years		2,209
Provision for income taxes	(6,566)	(17,568)
Non-GAAP net income	$ 102,387	$ 317,845
GAAP diluted net income per common share	$ 0.26	$ 0.76
Adjustment for stock-based compensation	0.04	0.16
Non-GAAP diluted net income per common share	$ 0.30	$ 0.92
Shares used in GAAP diluted net income per common share calculation	339,669	345,347
Adjustment for stock-based compensation	(1,161)	(1,501)
Shares used in non-GAAP diluted net income per common share calculation	338,508	343,846

Net Revenues

Net revenues of $450.7 million in the third quarter of fiscal 2007 were flat compared to the comparable prior year period of $449.6 million. Net revenues for the first nine months of fiscal 2007 were $1.4 billion, a 12% increase from the prior year comparable period of $1.3 billion. The increase in net revenues for the first nine months of fiscal 2007 was primarily a result of continued strong customer demand for our New Products. Increased unit sales during the third quarter and the first nine months of fiscal 2007 compared to the comparable prior year periods were partially offset by normal declines in average unit selling prices.

No end customer accounted for more than 10% of the Company s net revenues for any of the periods presented.

Net Revenues by Product

We classify our product offerings into four categories: New, Mainstream, Base and Support Products. These product categories, excluding Support Products, are modified on a periodic basis to better reflect advances in technology. The most recent adjustment was made on July 2, 2006, which was the beginning of our second quarter of fiscal 2007. Amounts for the prior periods presented have been reclassified to conform to the new categorization. New Products, as currently defined, include our most recent product offerings and include the Virtex -5, Virtex-4, Spartan-3 E, Spartan-3, and CoolRunner -II products. Mainstream Products include the Virtex-II Pro, Virtex-II, Spartan-IIE, Spartan-II, CoolRunner and Virtex-E products. Base Products consist of our mature product families and include the XC3000, XC3100, XC4000, XC4000XL, XC4000XLA, XC4000XV, XC4000E, XC4000EX, XC5200, XC9500, XC9500XL, XC9500XV, Virtex, Spartan-XL and Spartan products. Support Products make up the remainder of our product offerings and include configuration solutions (serial PROMs - programmable read only memory), software, intellectual property (IP) cores, customer training, design services and support.

Net revenues by product categories for the third quarter and the first nine months of fiscal 2007 and 2006 were as follows:

	Three Months Ended			Nine Months Ended		
(In millions)	**Dec. 30, 2006**	**Dec. 31, 2005**	**% Change**	**Dec. 30, 2006**	**Dec. 31, 2005**	**% Change**
New Products	$ 116.6	$ 58.4	100 %	$ 308.7	$ 130.5	136 %
Mainstream Products	235.7	272.6	(14)%	772.2	775.3	0 %
Base Products	73.7	92.5	(20)%	239.4	272.3	(12)%
Support Products	24.7	26.1	(5)%	79.0	75.8	4 %
Total Net Revenues	$ 450.7	$ 449.6	0 %	$ 1,399.3	$ 1,253.9	12 %

New Products continue to lead our revenue growth across a broad base of end markets. New Products consist primarily of our 90-nanometer products, which include our high-performance, high-density Virtex-4 family and our high-volume, low-cost Spartan-3 and Spartan-3E families. These products contributed to the majority of the revenue growth in New Products in the third quarter and the first nine months of fiscal 2007. We expect that sales of New Products will continue to increase over time due to continued customer adoption of these 90-nanometer products, customers programs going into volume production and the production ramp of our 65-nanometer Virtex-5 family and other next generation products by Xilinx.

Net revenues from Mainstream Products decreased in the third quarter of fiscal 2007 and were relatively flat for the first nine months of fiscal 2007 compared to the same periods a year ago primarily due to declines in sales of some of our older products including Spartan-II, Virtex-E and Virtex-II.

Net revenues from Base Products declined in the third quarter as well as the first nine months of fiscal 2007 from the comparable prior year periods. It is common for Base Product revenues to decrease because the average selling price continues to decline as products within this category mature and approach end of life.

Net revenues from Support Products decreased in the third quarter of fiscal 2007 from the comparable prior year period due primarily to a decline in sales of our serial PROMs product. Net revenues from Support Products increased in the first nine months of fiscal 2007 from the comparable prior year period. The increase was due to a slight increase in sales from our serial PROMs and software products in the beginning of the fiscal year.

Net Revenues by End Markets

Our end market revenue data is derived from our understanding of our end customers primary markets. Beginning with the quarter ended September 30, 2006, we changed the name of the Storage and Servers category to Data Processing to more accurately depict the type of applications found in this category. We classify our net revenues by end markets into four categories: Communications, Industrial and Other, Consumer and Automotive, and Data Processing. The percentage change calculation in the table below represents the year-to-year dollar change in each end market.

Net revenues by end markets for the third quarter and the first nine months of fiscal 2007 and 2006 were as follows:

(% of total net revenues)	Three Months Ended Dec. 30, 2006	Dec. 31, 2005	% Change in Dollars	Nine Months Ended Dec. 30, 2006	Dec. 31, 2005	% Change in Dollars
Communications	44 %	48 %	(8)%	46 %	49 %	4 %
Industrial and Other	31	27	12 %	28	25	29 %
Consumer and Automotive	16	14	17 %	16	14	25 %
Data Processing	9	11	(13)%	10	12	(11)%
Total Net Revenues	100 %	100 %	0 %	100 %	100 %	12 %

Net revenues from Communications decreased in the third quarter of fiscal 2007 to 44% of total net revenues. The decline in the third quarter of fiscal 2007 from the comparable prior year period was due to an excess inventory situation at contract manufacturers and at many of our large telecommunications customers. In addition, a number of mergers and acquisitions in the Communications end market have, in the short term, meant fewer semiconductor orders, as these combined companies begin to integrate their environments. Net revenues from Communications increased in the first nine months of fiscal 2007 from the comparable prior year period. The increase was due to improved business conditions in both wireless and wireline communication applications in the beginning of the year.

Net revenues from Industrial and Other grew in the third quarter of fiscal 2007 due to strength in defense, industrial, scientific and medical applications. Sales from defense applications were particularly strong, increasing to 13% of total net revenues. Net revenues from Industrial and Other increased in the first nine months of fiscal 2007 due to strength in defense, industrial, scientific and medical applications as well as in test and measurement applications.

Net revenues from Consumer and Automotive also increased in the third quarter and the first nine months of fiscal 2007 from the comparable prior year periods. Consumer applications were particularly strong in the third quarter of fiscal 2007 while consumer, automotive and audio/video broadcast applications all grew in the first nine months of fiscal 2007 as compared to the same period a year ago.

Net revenues from Data Processing declined in the third quarter of fiscal 2007 to 9% of total net revenues. Net revenues from Data Processing also declined in the first nine months of fiscal 2007 compared to the same periods last year. The decrease was primarily because of weakness in the storage business, which more than offset the moderate sales growth in computing and data processing applications.

Net Revenues by Geography

Geographic revenue information reflects the geographic location of the distributors or OEMs who purchased our products. This may differ from the geographic location of the end customers. Net revenues by geography for the third quarter and the first nine months of fiscal 2007 and 2006 were as follows:

(In millions)	Three Months Ended Dec. 30, 2006	Dec. 31, 2005	% Change	Nine Months Ended Dec. 30, 2006	Dec. 31, 2005	% Change
North America	$ 180.7	$ 193.2	(7)%	$ 558.8	$ 522.0	7 %
Europe	102.8	90.0	14 %	322.2	249.2	29 %
Asia Pacific	110.7	103.4	7 %	351.4	296.5	19 %
Japan	56.5	63.0	(10)%	166.9	186.2	(10)%
Total Net Revenues	$ 450.7	$ 449.6	0 %	$ 1,399.3	$ 1,253.9	12 %

Net revenues in North America decreased in the third quarter of fiscal 2007 versus the same period a year ago primarily due to weakened sales from the Communications and Data Processing end markets. Net revenues in North America increased in the first nine months of fiscal 2007 compared to the same period a year ago with the majority of the increase coming from the Industrial and Other end markets, particularly defense applications.

Net revenues in Europe increased in the third quarter of fiscal 2007 from the comparable prior year period. The increase was primarily driven by higher sales in wireless applications. Net revenues in Europe increased in the first nine months of fiscal 2007 from the comparable prior year period with the majority of the increase coming from the Communications and Industrial and Other end markets, particularly wireless

infrastructure and test and measurement applications.

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Net revenues in Asia Pacific increased in the third quarter of fiscal 2007 from the comparable prior year period primarily because of strength in wired applications. Net revenues in Asia Pacific increased in the first nine months of fiscal 2007 from the comparable prior year period driven by increased sales from communications and consumer applications.

Net revenues in Japan declined in the third quarter of fiscal 2007 compared to the same period a year ago. The decrease was due to decreased sales from the Communications end market, which was partially offset by sales growth in consumer and industrial, scientific and medical applications. Net revenues in Japan declined in the first nine months of fiscal 2007 compared to the same period last year. The decrease was due to a decline in sales from wireless and test and measurement applications.

Gross Margin

The following table presents non-GAAP gross margin, which excludes the effects of stock-based compensation expense, and a reconciliation from the most directly comparable GAAP measure:

	Three Months Ended		Nine Months Ended	
(In millions)	**Dec. 30, 2006**	**Dec. 31, 2005**	**Dec. 30, 2006**	**Dec. 31, 2005**
Gross Margin, as reported	$ 272.8	$ 283.1	$ 848.7	$ 775.0
% of Net Revenues	60.5 %	63.0 %	60.7 %	61.8 %
Stock-Based Compensation	$ 2.3	$	$ 8.4	$
Non-GAAP Gross Margin	$ 275.1	$ 283.1	$ 857.1	$ 775.0
Non-GAAP % of Net Revenues	61.0 %	63.0 %	61.3 %	61.8 %

Gross Margin declined from 63.0% in the third quarter of fiscal 2006 to 60.5% in the third quarter of fiscal 2007, and from 61.8% to 60.7% during the first nine months of fiscal 2007 compared to the same period last year. The declines were partially due to the impact of stock-based compensation expense. In addition, the impact of the production ramp of our 90-nanometer process, which primarily relates to New Products, also contributed to the decline of gross margin. New Products represented 26% of net revenues in the third quarter of fiscal 2007 compared to 13% of net revenues in the comparable prior year period. New Products generally have lower gross margins than Mainstream and Base Products.

Gross margin may be adversely affected in the future due to product-mix shifts, competitive-pricing pressure, manufacturing-yield issues and wafer pricing. We expect to mitigate these risks by continuing to improve yields on our New Products and by improving manufacturing efficiency with our suppliers.

In order to compete effectively, we pass manufacturing cost reductions on 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

The following table presents non-GAAP research and development (R&D) expenses, which excludes the effects of stock-based compensation expense, and a reconciliation from the most directly comparable GAAP measure:

	Three Months Ended		Nine Months Ended	
(In millions)	**Dec. 30, 2006**	**Dec. 31, 2005**	**Dec. 30, 2006**	**Dec. 31, 2005**
Research and Development, as reported	$ 96.1	$ 81.1	$ 289.6	$ 239.7
% of Net Revenues	21 %	18 %	21 %	19 %
Stock-Based Compensation	$ 10.0	$	$ 32.2	$
Non-GAAP Research and Development	$ 86.1	$ 81.1	$ 257.4	$ 239.7
Non-GAAP % of Net Revenues	19 %	18 %	18 %	19 %

R&D spending increased $15.0 million or 19% during the third quarter and $49.9 million or 21% during the first nine months of fiscal 2007 compared to the same periods last year. These increases were primarily due to stock-based compensation expense, expenses related to investments in resources to support new product development, particularly in the areas of digital signal processing (DSP) and embedded

processing, and an investment in our software R&D center in India.

Selling, General and Administrative

The following table presents non-GAAP selling, general and administrative (SG&A) expenses, which excludes the effects of stock-based compensation expense, and a reconciliation from the most directly comparable GAAP measure:

	Three Months Ended		Nine Months Ended	
(In millions)	Dec. 30, 2006	Dec. 31, 2005	Dec. 30, 2006	Dec. 31, 2005
Selling, General and Administrative, as reported	$ 90.0	$ 80.7	$ 279.9	$ 234.4
% of Net Revenues	20 %	18 %	20 %	19 %
Stock-Based Compensation	$ 9.1	$	$ 29.6	$
Non-GAAP Selling, General and Administrative	$ 80.9	$ 80.7	$ 250.3	$ 234.4
Non-GAAP % of Net Revenues	18 %	18 %	18 %	19 %

SG&A expenses increased $9.3 million or 12% during the third quarter and $45.4 million or 19% during the first nine months of fiscal 2007 compared to the same periods last year. These increases were attributable to stock-based compensation expense, expenses related to increased headcount, particularly in our sales organization, and legal related costs.

Amortization of Acquisition-Related Intangibles

	Three Months Ended				Nine Months Ended			
(In millions)	Dec. 30, 2006	Dec. 31, 2005	$ Change	% Change	Dec. 30, 2006	Dec. 31, 2005	$ Change	% Change
Amortization	$ 2.0	$ 1.5	$ 0.5	31 %	$ 6.1	$ 5.0	$ 1.1	20 %

Amortization expense was primarily related to the intangible assets acquired from the RocketChips, Triscend, HDI and AccelChip acquisitions. Amortization expense for these intangible assets increased slightly for the third quarter and the first nine months of fiscal 2007 from the same periods last year due to the acquisition of AccelChip in January 2006. We expect amortization of acquisition-related intangibles to be approximately $8.0 million for fiscal 2007 compared with $7.0 million for fiscal 2006.

Stock-Based Compensation Related to Prior Years

On June 22, 2006, the Company received notice from the SEC advising that the SEC had commenced an informal inquiry into the Company s historical stock option-granting practices. At the direction of a Special Committee of the Board of Directors, outside counsel conducted an investigation into the Company s historical option granting practices. Based on the results of the investigation and the Company s analysis of the facts, the Company took a $2.2 million charge to its earnings for the first quarter of fiscal 2007. The charge is based on the difference between recorded grant dates and measurement dates in certain stock option grants between 1997 and 2006. The investigation found no evidence of fraud in the Company s practices in granting of stock options, nor any evidence of manipulation of the timing or exercise price of stock option grants. The investigation further found no issues of management integrity in the issuance of stock options. The investigation determined that in nearly all cases, stock options were issued as of pre-set dates. This one-time charge did not have a material effect on the Company s historical financial statements, and therefore there was no restatement necessary to the Company s financial statements for any prior periods.

The income tax effect of the charge resulted in a benefit of $650 thousand, which was recorded to income tax expense. The Company assessed the implications of applicable income tax rules that may affect the Company. The tax benefit recorded is net of such potential costs.

Litigation Settlements and Contingencies

On November 27, 2006, the Company settled the patent infringement lawsuit with Lizy K. John, under which the Company agreed to pay $6.5 million. John agreed to dismiss the patent infringement lawsuit with prejudice, granted a patent license to the Company and executed an agreement not to sue the Company under any patent owned or controlled by John for ten years. As a result of the settlement agreement, we recorded a current period charge of $2.5

million during the third quarter of fiscal 2007. The remaining balance of $4.0 million represented the value of the prepaid patent license granted as part of the settlement. This balance will be amortized over the asset s remaining useful life.

The Company accrued amounts that represented anticipated payments for liability for legal contingencies under the provisions of SFAS 5, Accounting for Contingencies including an increase of $3.2 million in the second quarter of fiscal 2006.

Impairment Loss on Investments

We recognized impairment losses on investments of $1.5 million and $2.0 million during the third quarter and the first nine months of fiscal 2007 related to non-marketable equity securities in private companies. These impairment losses resulted from certain investees diluting Xilinx s investment through the receipt of additional rounds of investment at a lower per share price.

Interest Income and Other, Net

	Three Months Ended				Nine Months Ended			
(In millions)	Dec. 30, 2006	Dec. 31, 2005	$ Change	% Change	Dec. 30, 2006	Dec. 31, 2005	$ Change	% Change
Interest Income and Other, Net	$ 22.4	$ 10.9	$ 11.5	105 %	$ 63.4	$ 36.2	$ 27.2	75 %
% of Net Revenues	5 %	2 %			5 %	3 %		

The increase in interest income and other, net in the third quarter of fiscal 2007 over the prior year s comparable period was due to higher yields resulting from an increase in interest rates and a gain of approximately $1.0 million from the sale of a portion of the Company s UMC investment. For the nine months ended December 30, 2006, the increase in interest income and other, net over the prior year s comparable period was due to higher yields resulting from an increase in interest rates, an increase of approximately $4.2 million in dividend income from the UMC investment compared to the prior year, and a gain of approximately $7.0 million from the sale of a portion of the Company s UMC investment which was partially offset by portfolio capital losses.

Provision for Income Taxes

	Three Months Ended				Nine Months Ended			
(In millions)	Dec. 30, 2006	Dec. 31, 2005	$ Change	% Change	Dec. 30, 2006	Dec. 31, 2005	$ Change	% Change
Provision for Income Taxes	$ 15.6	$ 49.8	$ (34.2)	(69)%	$ 66.8	$ 85.4	$ (18.6)	(22)%
% of Net Revenues	3 %	11 %			5 %	7 %		
Effective Tax Rate	15 %	38 %			20 %	26 %		

Our effective tax rate decreased 23 percentage points in the third quarter of fiscal 2007 as compared to the third quarter of fiscal 2006. The net decrease was primarily due to a decrease in the net charge to income tax expense for items unique to the quarter. The effective tax rate also benefited from an increase in the portion of income earned in lower tax rate jurisdictions. However, this benefit was partially offset by certain non-deductible stock-based compensation expense.

In the third quarter of fiscal 2007, we recorded a $1.3 million tax benefit for federal R&D tax credits for the fourth quarter of fiscal 2006 and reduced our estimated effective tax rate for fiscal 2007 by approximately one percentage point due to the retroactive re-enactment of the federal R&D tax credit on December 20, 2006. In addition, we recorded a $1.2 million tax benefit for adjustments to the estimated fiscal 2006 tax accruals upon filing the 2006 U.S. federal income tax return.

During the third quarter of fiscal 2006, the Company s Chief Executive Officer and its Board of Directors approved a domestic reinvestment plan to repatriate $500.0 million in earnings of its foreign subsidiaries. This repatriation dividend qualified for the 85% dividends received deduction provided for under the American Jobs Creation Act of 2004. This resulted in the recognition of approximately $25.3 million of federal and state tax expense (net of federal benefit). The negative tax effects were partially offset by approximately $5.9 million in tax benefit related to the recognition of deferred tax assets for state R&D tax credits where the Company determined that it was more likely than not that the asset would be realized. We also recorded a $1.4 million tax benefit for the adjustment to estimated fiscal 2005 tax accruals upon filing the 2005 U.S. federal income tax return and a $2.3 million tax benefit related to the release of reserves due to the expiration of the federal statute of limitations for fiscal 2002.

Our effective rate decreased six percentage points during the nine months ended December 30, 2006 as compared to the nine months ended December 31, 2005. The net decrease was due to the factors cited above, offset by a favorable U.S. Tax Court decision in fiscal 2006 and certain non-deductible stock-based compensation expense.

The effective tax rate in the first nine months of fiscal 2006 was positively impacted by an $8.0 million net tax benefit ($9.4 million offset by taxes of $1.4 million on interest income) resulting from the favorable ruling by the U.S. Tax Court for Xilinx in its litigation with the IRS for fiscal 1996 to 1999 and by an increase in tax credits for R&D and affordable housing.

The Company was examined by the IRS for its fiscal 1996 through 2001. All issues have been settled with the exception of issues related to Xilinx U.S. s cost sharing arrangement with Xilinx Ireland. On August 30, 2005, the Tax Court issued its opinion concerning whether the value of stock options must be included in the cost sharing agreement with Xilinx Ireland. The Tax Court agreed with the Company that no amount for stock options was to be included in the cost sharing agreement. Accordingly, there are no additional taxes, penalties or interest due for this issue. The decision was entered by the Tax Court on May 31, 2006. On August 25, 2006, the IRS appealed the decision to the Ninth Circuit Court of Appeals. The Company intends to oppose this appeal as it believes that the Tax Court decided the case correctly. See Note 11 to our condensed consolidated financial statements included in Part 1. Financial Information and Item 1. Legal Proceedings included in Part II. Other Information.

Financial Condition, Liquidity and Capital Resources

We have historically used a combination of cash flows from operations and equity and debt financing to support ongoing business activities, acquire or invest in critical or complementary technologies, purchase facilities and capital equipment, repurchase our common stock under our stock repurchase program, pay dividends and finance working capital. Additionally, our investments in debt securities and in UMC stock are available for future sale. The combination of cash, cash equivalents and short-term and long-term investments at December 30, 2006 and April 1, 2006 totaled $1.8 billion and $1.6 billion, respectively. As of December 30, 2006, we had cash, cash equivalents and short-term investments of $1.2 billion and working capital of $1.4 billion. As of April 1, 2006, cash, cash equivalents and short-term investments were $1.0 billion and working capital was $1.3 billion.

Operating Activities - During the first nine months of fiscal 2007, our operations generated net positive cash flow of $445.9 million, which was $40.3 million higher than the $405.6 million generated during the first nine months of fiscal 2006. The positive cash flow from operations generated during the first nine months of fiscal 2007 was primarily from net income as adjusted for noncash related items, a decrease in accounts receivable and an increase in income taxes payable. These items were partially offset by a decrease in deferred income on shipments to distributors. Accounts receivable decreased by $46.5 million from the levels at April 1, 2006, due to a decrease in net shipments and weaker linearity of shipments to distributors during the three months ended December 30, 2006 as compared to the three months ended April 1, 2006. This was reflected in our lower days sales outstanding which decreased to 29 days at December 30, 2006 from 41 days at April 1, 2006. Our inventory levels were $15.8 million lower at December 30, 2006 compared to April 1, 2006. Combined inventory days at Xilinx and distribution decreased to 114 days at December 30, 2006 from 145 days at April 1, 2006, which was due to a decrease in inventory levels and an increase in cost of revenues. The decrease in deferred income on shipments to distributors for the first nine months of fiscal 2007 was due to an inventory reduction in the distribution channel.

For the first nine months of fiscal 2006, the net positive cash flow from operations was primarily from net income as adjusted for non-cash related items, a decrease in accounts receivable and increases in accounts payable and accrued liabilities. These items were partially offset by increases in inventories, prepaid expenses and other current assets and in other assets.

Investing Activities - Net cash used in investing activities of $302.2 million during the first nine months of fiscal 2007 included net purchases of available-for-sale securities of $253.0 million, including $183.5 million of net proceeds from the sale of a portion of the UMC investment, $47.6 million for purchases of property, plant and equipment and $1.6 million for other investing activities. Net cash provided by investing activities of $58.8 million during the first nine months of fiscal 2006 included net proceeds from the sale and maturity of available-for-sale securities of $127.5 million, which was partially offset by $44.6 million for purchases of property, plant and equipment and $24.1 million for other investing activities, primarily related to affordable housing credit investments.

Financing Activities - Net cash used in financing activities was $387.0 million in the first nine months of fiscal 2007 and consisted of $400.0 million for the repurchase of common stock and $91.2 million for dividend payments to stockholders. These items were partially offset by $85.1 million of proceeds from the issuance of common stock

under employee stock plans and $19.1 million for excess tax benefits from stock-based compensation. For the comparable fiscal 2006 period, net cash used in financing activities was $289.9 million and consisted of $276.6 million for the repurchase of common stock and $73.0 million for dividend payments to stockholders, which were partially offset by $59.7 million of proceeds from the issuance of common stock under employee stock plans.

Stockholders equity decreased $61.1 million during the first nine months of fiscal 2007. The decrease was attributable to the repurchase of common stock of $400.0 million, the payment of dividends to stockholders of $91.2 million, unrealized losses on available-for-sale securities, net of deferred tax benefits, mainly from our investment in UMC, of $10.9 million and the combination of hedging transaction loss and tax reconciliation and reclassification adjustments totaling $500 thousand. The decreases were partially offset by the $263.0 million in net income for the first nine months of fiscal 2007, the issuance of common stock under employee stock plans of $82.3 million, stock-based compensation related amounts totaling $74.8 million, the related tax benefits associated with stock option exercises and the Stock Purchase Plan of $19.5 million and cumulative translation adjustment of $1.9 million.

Contractual Obligations

We lease some of our facilities and office buildings under non-cancelable operating leases that expire at various dates through July 2016. See Note 12 to our condensed consolidated financial statements included in Part 1. Financial Information for a schedule of our non-cancelable operating lease commitments as of December 30, 2006.

In November 2005, Xilinx made an investment commitment of $37.0 million for a new building in Singapore, the Company s Asia Pacific regional headquarters. As of December 30, 2006, approximately $24.0 million of our investment commitment remains outstanding. The project is expected to be completed in June 2007.

Due to the nature of our business, we depend entirely upon subcontractors to manufacture our silicon wafers and provide assembly and some test services. The lengthy subcontractor lead times require us to order the materials and services in advance, and we are obligated to pay for the materials and services when completed. As of December 30, 2006, we have $74.4 million of outstanding inventory and other non-cancelable purchase obligations to subcontractors. We expect to receive and pay for these materials and services in the next three to six months, as the products meet delivery and quality specifications. As of December 30, 2006, the Company also has $24.0 million of non-cancelable license obligations to providers of electronic design automation software expiring at various dates through December 2010.

In the fourth quarter of fiscal 2005, the Company committed up to $20.0 million to acquire, in the future, rights to intellectual property until July 2023. License payments will be amortized over the useful life of the intellectual property acquired.

Off-Balance-Sheet Arrangements

As of December 30, 2006, we did not have any significant off-balance-sheet arrangements, as defined in Item 303(a)(4)(ii) of SEC Regulation S-K.

Summary of Liquidity and Capital Resources

On April 25, 2006, our Board of Directors declared an increase in the dividend rate on our common stock from $0.07 to $0.09 per common share for the first quarter of fiscal 2007. The dividend was paid on May 31, 2006 to stockholders of record on May 10, 2006. In addition, on July 26 and October 18, 2006, our Board of Directors declared cash dividends of $0.09 per common share for the second and third quarters of fiscal 2007 which were paid on September 6 and December 6, 2006, respectively, to stockholders of record on August 16 and November 15, 2006, respectively. On January 17, 2007, our Board of Directors declared a cash dividend of $0.09 per common share for the fourth quarter of fiscal 2007 which is payable on February 28, 2007 to stockholders of record on February 7, 2007. For fiscal 2006, the Board of Directors declared four quarterly common stock dividends of $0.07 per common share each for a total of $0.28 per common share for the entire fiscal year. Our dividend policy could be impacted by, among other items, our views on potential future capital requirements relating to research and development, investments and acquisitions, legal risks, stock repurchase programs 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. However, the risk factors discussed in Item 1A included in Part II. Other Information. and below could adversely affect our cash positions. We will continue to evaluate opportunities for investments to obtain additional wafer capacity, procurement of additional capital equipment and facilities, development of new products, and potential acquisitions of technologies or businesses that could complement our business.

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 $1.7 billion at December 30, 2006. Our primary aim with our investment portfolio is to invest available cash while preserving principal and meeting liquidity needs. The portfolio includes municipal bonds, floating rate notes, asset-backed and mortgage-backed securities, bank certificates of deposit, commercial paper, corporate bonds, government agency bonds and U.S. Treasury securities. 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. These securities are subject to interest rate risk and will decrease in value if market interest rates increase. A hypothetical 10% increase or decrease in market interest rates compared to interest rates at December 30, 2006 would not materially affect the fair value of our available-for-sale securities and the impact on our investment portfolio would have been less than $11.0 million.

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 and effective as hedges of anticipated transactions, for which a firm commitment has been attained, are deferred and included in the basis of the transaction 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 consolidated statements of income as they are incurred.

We will enter into forward currency exchange contracts to hedge our overseas operating expenses and other liabilities when deemed appropriate. As of December 30, 2006, we had the following outstanding forward currency exchange contracts:

(In thousands and U.S. dollars)	
Singapore dollar	$ 28,766
Euro	19,156
Japanese Yen	4,768
	$ 52,690

The net unrealized gain or loss which approximates the fair market value of the above contracts was immaterial at December 30, 2006. The contracts expire at various dates between January and June 2007.

Our investments in several wholly-owned subsidiaries are recorded in currencies other than the U.S. dollar. As these foreign currency denominated investments 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. In addition, as our subsidiaries maintain investments denominated in other than local currencies, exchange rate fluctuations will occur. A hypothetical 10% favorable or unfavorable change in foreign currency exchange rates compared to rates at December 30, 2006 would have affected the value of our investments in foreign currency denominated subsidiaries by less than $13.0 million.

Equity Security Price Risk

Our investment in marketable equity securities at December 30, 2006 consists almost entirely of our investment in UMC, which consists of shares of common stock, the value of which is determined by the closing price on the Taiwan Stock Exchange as of the balance sheet date. This value is converted from New Taiwan dollars into U.S. dollars and included in our determination of the change in the fair value of our investment in UMC which is accounted for under the provisions of SFAS No. 115. The market value of our investment in UMC was approximately $72.3 million at December 30, 2006 as compared to our adjusted cost basis of approximately $62.5 million. The value of our investment in UMC would be materially impacted if there were a significant change in the market price of the UMC shares and/or New Taiwan dollars. Excluding the effect of any changes in the New Taiwan dollar, a hypothetical 10%

favorable or unfavorable change in UMC s stock price compared to the stock price at December 30, 2006 would have affected the value of our investment in UMC by less than $8.0 million. See Note 6 to our condensed consolidated financial statements, included in Part 1. Financial Information, for additional information about our UMC investment.

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 Securities Exchange Act of 1934, as amended (the 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 the Company s 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.

We evaluated the design and operation of our disclosure controls and procedures, as of the end of the period covered by this Quarterly Report on Form 10-Q (Controls Evaluation Date), under the supervision and with the participation of management, including our CEO and CFO. In the course of the controls evaluation, we sought to identify data errors, control problems or acts of fraud, if any, and confirm that appropriate corrective action, including process improvements were being undertaken.

Based upon the controls evaluation, our CEO and CFO have concluded that, as of the end of the period covered by this Quarterly Report, the Company s disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) 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 was no change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the quarter ended December 30, 2006 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Internal Revenue Service

The IRS audited and issued proposed adjustments to the Company for fiscal 1996 through 2001. The Company filed petitions with the Tax Court in response to assertions by the IRS relating to fiscal 1996 through 2000. The Company filed a Tax Court petition with respect to fiscal 1996 through 1998 on March 26, 2001, with respect to fiscal 1999 on January 14, 2002 and with respect to fiscal 2000 on January 16, 2003. In addition, the IRS proposed adjustments to the Company s net operating loss for fiscal 2001. To date, all issues have been settled with the IRS except as described in the following paragraph.

On August 30, 2005, the Tax Court issued its opinion concerning whether the value of stock options must be included in the cost sharing agreement with Xilinx Ireland. The Tax Court agreed with the Company that no amount for stock options was to be included in the cost sharing agreement, and thus, the Company had no tax, interest, or penalties due for this issue. The decision was entered by the Tax Court on May 31, 2006. On August 25, 2006, the IRS appealed the decision to the U.S. Court of Appeal for the Ninth Circuit.

Other than as stated above, we know of no legal proceedings contemplated by any governmental authority or agency against the Company.

Patent Litigation

On October 17, 2005, a patent infringement lawsuit was filed by Lizy K. John (John) against Xilinx in the U.S. District Court for the Eastern District of Texas, Marshall Division. John sought an injunction, unspecified damages and attorneys fees.

On November 27, 2006, the Company settled the patent infringement lawsuit with John, under which the Company agreed to pay $6.5 million. John agreed to dismiss the patent infringement lawsuit with prejudice, granted a patent license to the Company and executed an agreement not to sue the Company under any patent owned or controlled by John for ten years. See Note 14 to our condensed consolidated financial statements included in Part 1. Financial Information for additional information.

SEC Informal Inquiry

On June 22, 2006, the Company received notice from the SEC advising that the SEC had commenced an informal inquiry into the Company s historical stock option-granting practices. The notice included an informal request for documents. Based on the results of the investigation performed by outside counsel at the direction of a Special Committee of the Board of Directors and the Company s analysis of the facts, the Company took a $2.2 million charge to its earnings for the first quarter of fiscal 2007. The charge was based on the difference between recorded grant dates and measurement dates in certain stock option grants between 1997 and 2006. The investigation found no evidence of fraud in the Company s practices in granting of stock options, nor any evidence of manipulation of the timing or exercise price of stock option grants. The investigation further found no issues of management integrity in the issuance of stock options. The investigation determined that in nearly all cases, stock options were issued as of pre-set dates. The Special Committee and the Board of Directors declared the investigation to be concluded.

On November 28, 2006, the SEC formally notified the Company that its investigation of the Company s stock option granting practices was terminated and that no enforcement action was recommended.

Stockholder Derivative Lawsuits

On June 2, 2006, a Xilinx stockholder filed a derivative complaint in the U.S. District Court for the Northern District of California (*Murphy v. Roelandts et al.*, Case No. C 06 3564 RMW), purportedly on behalf of the Company, against members of the Company s Board of Directors and against certain of the Company s officers. The complaint alleged, among other things, that defendants mismanaged corporate assets and breached their fiduciary duties between 1998 and the date of filing by authorizing or failing to halt the backdating of certain stock options. The complaint also alleged that the officer defendants were unjustly enriched by their receipt and retention of the backdated stock option grants and that the Company issued false and misleading proxy statements in fiscal 2002 and 2003.

On June 28, 2006, a second Xilinx stockholder filed a separate, but substantially similar, derivative complaint in the U.S. District Court for the Northern District of California (*Blum v. Roelandts et al.*, Case No. C 06 4016 JW), purportedly on behalf of the Company, against members of the Company s Board of Directors and against certain of the Company s officers. The complaint alleged, among other things, that defendants mismanaged corporate assets and breached their fiduciary duties between 1998 and the date of filing by authorizing or failing to halt the

backdating of certain stock options. The complaint also alleged that defendants were unjustly enriched by the receipt and retention of the backdated stock option grants and that certain of the defendants sold Xilinx stock for a profit while in possession of material, non-public information. The complaint also alleged that the Company issued false and misleading financial disclosures and proxy statements from fiscal 1998 through 2006. In addition, the complaint alleged that defendants engaged in a fraudulent scheme to divert millions of dollars to themselves via improper option grants.

The two stockholder derivative complaints were consolidated into one stockholder derivative case. On January 8, 2007, the consolidated stockholder derivative case was dismissed by the U.S. District Court for the Northern District of California.

Other Matters

From time to time, we are involved in various disputes and litigation matters that arise in the ordinary course of business. These include disputes and lawsuits related to intellectual property, mergers and acquisitions, licensing, contract law, distribution arrangements and employee relations matters. Periodically, we review the status of each significant matter and assess 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, we accrue 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, we continue to reassess the potential liability related to pending claims and litigation and may revise estimates.

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 ones the Company faces. 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.

The semiconductor industry is characterized by rapid technological change, intense competition and cyclical market patterns which contribute to create factors that may affect our future operating results including:

Market Demand

- increased dependence on turns orders (orders received and shipped within the same fiscal quarter);
- limited visibility of demand for products, especially new products;
- reduced capital spending by our customers;
- weaker demand for our products or those of our customers due to a prolonged period of economic uncertainty;
- excess inventory at Xilinx and within the supply chain including overbuilding of OEM products;
- additional excess and obsolete inventories and corresponding write-downs due to a significant deterioration in demand;
- inability to manufacture sufficient quantities of a given product in a timely manner;
- inability to obtain manufacturing or test and assembly capacity in sufficient volume;
- inability to predict the success of our customers products in their markets;
- an unexpected increase in demand resulting in longer lead times that causes delays in customer production schedules;
- dependence on the health of the end markets and customers we serve;

Competitive Environment

- price and product competition, which can change rapidly due to technological innovation;
- customers converting to application specific integrated circuit (ASIC) or application specific standard product (ASSP) designs from Xilinx programmable logic devices (PLDs);
- faster than normal erosion of average selling prices;
- timely introduction of new products and ability to manufacture in sufficient quantities at introduction;

Technology

- lower gross margins due to product or customer mix shifts and reduced manufacturing efficiency;
- failure to retain or attract specialized technical/management personnel;
- timely introduction of advanced manufacturing technologies;
- ability to safeguard the Company s products from competitors by means of patents and other intellectual property protections;
- impact of new technologies which result in rapid escalation of demand for some products in the face of equally steep declines in demand for others;
- ability to successfully manage multiple vendor relationships;

Other

- changes in accounting pronouncements;
- dependence on distributors to generate sales and process customer orders;
- disruption in sales generation, order processing and logistics if a distributor materially defaults on a contract;
- impact of changes to current export/import laws and regulations;
- volatility of the securities market, particularly as it relates to the technology sector and our investment in UMC;
- unexpected product quality issues;
- global events impacting the world economy or specific regions of the world;
- increase in the cost of natural resources;
- parts shortages at our suppliers;
- failure of information systems impacting financial reporting;
- catastrophes that impact the ability of our supply chain to operate or deliver product; and
- higher costs associated with multiple foundry relationships.

We attempt to identify changes in market conditions as soon as possible; however, the dynamics of the market make prediction of and timely reaction to such events difficult. Due to these and other factors, our past results, including those described in this report, are much less reliable predictors of the future than with companies in many older, more stable and mature industries. Based on the factors noted herein, we may experience substantial fluctuations in future operating results.

Our results of operations are impacted by global economic and political conditions, dependence on new products, dependence on independent manufacturers and subcontractors, competition, intellectual property, potential new accounting pronouncements, Sarbanes-Oxley Section 404 compliance and litigation, each of which is discussed in greater detail below.

Potential Effect of Global Economic and Political Conditions

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 and by changes in foreign currency exchange rates affecting those countries. For example, we have sales and operations in the Asia Pacific region, Japan and Europe. Past economic weakness in these markets adversely affected revenues, and such conditions may occur in the future. Sales to all direct OEMs and distributors are denominated in U.S. dollars. While the recent movement of the Euro and Yen against the U.S. dollar had no material impact to our business, increased volatility could impact our European and Japanese customers. Currency instability 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. Any or all of these factors could adversely affect our financial condition and results of operations in the future.

Our financial condition and results of operations are increasingly dependent on the global economy. Any instability in worldwide economic environments occasioned, for example, by political instability or terrorist activity could impact economic activity and could lead to a contraction of capital spending by our customers. Additional risks to us include U.S. military actions, changes in U.S. government spending on military and defense activities impacting defense-associated sales, economic sanctions imposed by the U.S. government, government regulation of exports, imposition of tariffs and other potential trade barriers, reduced protection for intellectual property rights in some countries, rising oil prices and

generally longer receivable collection periods. 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, end customers and contract manufacturers who provide assembly and test services worldwide, are located.

Dependence on New Products

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. The success of new product introductions is dependent upon several factors, including:

- timely completion of new product designs;
- ability to generate new design opportunities (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 to circuit geometries on 65 nanometers and smaller;
- achieving acceptable yields;
- ability to obtain adequate production capacity from our wafer foundries and assembly subcontractors;
- ability to obtain advanced packaging;
- availability of supporting software design tools;
- utilization of predefined IP cores of logic;
- customer acceptance of advanced features in new products; and
- successful deployment of electronic systems by our customers.

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.

Dependence on Independent Manufacturers and Subcontractors

During the first nine months of fiscal 2007, nearly all of our wafers were manufactured in Taiwan by UMC and in Japan by Toshiba and Seiko. 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 Xilinx and these wafer foundries, which usually result in short-term agreements. We are dependent on these foundries, especially UMC, which supplies the substantial majority of our wafers. We rely on UMC to produce wafers with competitive performance and cost attributes, which include transitioning to advanced manufacturing process technologies and increased wafer sizes, producing wafers at acceptable yields, and delivering them in a timely manner. We cannot guarantee that the foundries that supply our wafers will not experience manufacturing problems, including delays in the realization of advanced manufacturing process technologies. In addition, greater demand for wafers produced by the foundries without an offsetting increase in foundry capacity, raises the likelihood of potential wafer price increases.

UMC s foundries in Taiwan and Toshiba s and Seiko s foundries in Japan as well as many of our operations in California are centered in areas that have been seismically active in the recent past. Should there be a major earthquake in our suppliers or our operating locations in the future, our operations, including our manufacturing activities, may be disrupted. This type of disruption could result in our inability to ship products in a timely manner, thereby materially adversely affecting our financial condition and results of operations. Additionally, disruption of operations at these foundries for any reason, including other natural disasters such as 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.

We are also dependent on subcontractors to provide semiconductor assembly, test and shipment services. Any prolonged inability to obtain wafers with competitive performance and cost attributes, adequate yields or timely delivery, unavailability of or disruption in assembly, test or shipment services, 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 demand reducing net sales and negatively impacting our financial condition and results of operations.

Competition

Our PLDs compete in the logic integrated circuit (IC) industry, an industry that is intensely competitive and characterized by rapid technological change, increasing levels of integration, product obsolescence and continuous price erosion. We expect increased competition from our primary PLD competitors, Altera Corporation (Altera), Lattice Semiconductor Corporation and Actel Corporation, from the ASIC market, which has been ongoing since the inception of field programmable gate arrays (FPGAs), from the ASSP market, and from new companies that may enter

the traditional programmable logic market segment. We believe that important competitive factors in the logic industry include:

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

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. In addition, we anticipate continued price reductions proportionate with our ability to lower the cost for established products. However, we may not be successful in achieving these strategies.

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 (CPLDs);
- high-performance DSP devices;
- products with embedded processors;
- products with embedded multi-gigabit transceivers; and
- other new or emerging programmable logic products.

Several companies have introduced products that compete with ours or have announced their intention to enter the PLD segment. 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 the market segment. We recognize that different applications require different programmable technologies, and we are developing architectures, processes and products to meet these varying customer needs. Recognizing the increasing importance of standard software solutions, we have developed common software design tools that support the full range of our IC products. We believe that automation and ease of design are significant competitive factors in the PLD market segment.

We could also face competition from our licensees. We have granted limited rights to other companies with respect to certain of our older technology which may enable them to manufacture and market products which may be competitive with some of our older products.

In conjunction with Xilinx s settlement of the patent litigation with Altera in July 2001, both companies entered into a royalty-free patent cross license agreement for many of each company s patents through July 2006.

Intellectual Property

We rely upon patent, copyright, trade secret, mask work and trademark laws to protect our intellectual property. We cannot provide 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 our competitors, have asserted patent, copyright and other intellectual property rights to technologies that are important to us. Third parties may assert infringement claims against us in the future; assertions by third parties may result in costly litigation and we may not prevail in such litigation or be able to license any valid and infringed patents from third parties on commercially reasonable terms. Litigation, regardless of its outcome, could result in substantial costs and diversion of our resources. Any infringement claim or other litigation against us or by us could materially adversely affect our financial condition and results of operations.

Potential Effect of New Accounting Pronouncements

There may be potential new accounting pronouncements or regulatory rulings, which may have an impact on our future financial condition and results of operations. For example, on April 2, 2006, the Company adopted SFAS 123(R) which requires the measurement and recognition of compensation expense for all stock-based compensation based on estimated fair values. As a result, our operating results for the first nine months of fiscal 2007 contain, and our operating results for future periods will contain, a charge for stock-based compensation related to employee stock options and employee stock purchases. As a result of the adoption of SFAS 123(R), our net income for the first nine months of fiscal 2007 was lower than it would have been had we not been required to adopt SFAS 123(R). This will continue to be the case for subsequent periods. We cannot predict the effect that this negative impact on our reported operating results will have on the trading price of our common stock. Any subsequent changes in accounting rules may also have an adverse effect on our results of operations. See Note 3 to our condensed consolidated financial statements included in Part 1. Financial Information for additional information about stock-based compensation. Please also see Note 2 to our condensed consolidated financial statements included in Part 1. Financial Information for additional information about recent accounting pronouncements.

Financial Reporting and Internal Controls Environment

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. Further, our internal control effectiveness may be impacted if we are unable to retain sufficient skilled finance and accounting personnel, especially in light of the increased demand for such personnel among publicly traded companies.

Litigation

See Part II, Item 1. Legal Proceedings.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Issuer Purchases of Equity Securities

The following table summarizes the Company s repurchase of its common stock during the third fiscal quarter of 2007. See Note 7 to our condensed consolidated financial statements included in Part 1. Financial Information for information regarding our stock repurchase plans.

(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
Period				
October 1 to November 4, 2006	2,639	$ 25.21	2,639	$ 357,351
November 5 to December 2, 2006	1,790	$ 25.21	1,790	$ 312,206
December 3 to December 30, 2006	1,520	$ 25.21	1,520	$ 273,888
Total for the Quarter	5,949	$ 25.21	5,949	

During the third quarter of fiscal 2007, the Company repurchased a total of 5.9 million shares of its common stock for $150.0 million. On February 13, 2006, we announced a repurchase program of up to $600.0 million of common stock. Through December 30, 2006, the Company had repurchased $326.1 million of the $600.0 million of common stock approved for repurchase under the February 2006 authorization. This share repurchase program has no stated expiration date.

ITEM 6. EXHIBITS

(a) Exhibits

31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1 Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2 Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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

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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: February 2, 2007

/s/ Jon A. Olson
Jon A. Olson
Senior Vice President, Finance
and Chief Financial Officer
(as principal accounting and financial
officer and on behalf of Registrant)

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