XILINX INC
Form 10-Q
January 25, 2019

Table of Contents

---

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 29, 2018

or
TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from ________ to _______ .
Commission File Number 000-18548

Xilinx, Inc.
(Exact name of registrant as specified in its charter)

| | |
|---|---|
| Delaware | 77-0188631 |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |
| 2100 Logic Drive, San Jose, California | 95124 |
| (Address of principal executive offices) | (Zip Code) |

(408) 559-7778
(Registrant’s telephone number, including area code)
N/A
(Former name, former address, and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨
Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes x No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

| | | |
|---|---|---|
| Large accelerated filer x | Accelerated filer o | Non-accelerated filer o |
| Smaller reporting company o | Emerging growth company o | |

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o

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

Shares outstanding of the registrant's common stock:

| Class | Shares Outstanding as of January 11, 2019 |
| --- | --- |
| Common Stock, $0.01 par value | 253,163,895 |

Table of Contents

TABLE OF CONTENTS

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements
XILINX, INC.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

| (In thousands, except per share amounts) | Three Months Ended December 29, 2018 | Three Months Ended December 30, 2017 [1] | Nine Months Ended December 29, 2018 | Nine Months Ended December 30, 2017 [1] |
|---|---|---|---|---|
| Net revenues | $800,057 | $598,603 | $2,230,678 | $1,828,832 |
| Cost of revenues | 247,903 | 177,969 | 686,411 | 554,478 |
| Gross margin | 552,154 | 420,634 | 1,544,267 | 1,274,354 |
| Operating expenses: | | | | |
| Research and development | 189,329 | 166,231 | 543,527 | 477,267 |
| Selling, general and administrative | 103,039 | 92,753 | 291,256 | 272,981 |
| Amortization of acquisition-related intangibles | 1,866 | 353 | 3,064 | 1,568 |
| Total operating expenses | 294,234 | 259,337 | 837,847 | 751,816 |
| Operating income | 257,920 | 161,297 | 706,420 | 522,538 |
| Interest and other income (expense), net | (1,330) | 5,469 | 2,231 | 9,138 |
| Income before income taxes | 256,590 | 166,766 | 708,651 | 531,676 |
| Provision for income taxes | 17,230 | 179,251 | 63,542 | 213,166 |
| Net income (loss) | $239,360 | $(12,485) | $645,109 | $318,510 |
| Net income (loss) per common share: | | | | |
| Basic | $0.95 | $(0.05) | $2.55 | $1.28 |
| Diluted | $0.93 | $(0.05) | $2.53 | $1.23 |
| Cash dividends per common share | $0.36 | $0.35 | $1.08 | $1.05 |
| Shares used in per share calculations: | | | | |
| Basic | 253,060 | 254,089 | 252,634 | 248,671 |
| Diluted | 256,374 | 254,089 | 255,227 | 258,995 |

[1] Prior year balances have been restated to reflect the retrospective application of the new revenue recognition accounting standard. Please refer to "Note 2. Recent Accounting Changes and Accounting Pronouncements."

See notes to condensed consolidated financial statements.

Table of Contents

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

| (In thousands) | Three Months Ended December 29, 2018 | Three Months Ended December 30, 2017 [1] | Nine Months Ended December 29, 2018 | Nine Months Ended December 30, 2017 [1] |
|---|---|---|---|---|
| Net income (loss) | $239,360 | $(12,485) | $645,109 | $318,510 |
| Other comprehensive income (loss), net of tax: | | | | |
| Change in net unrealized gains (losses) on available-for-sale securities | 7,029 | (7,502) | 3,244 | (1,566) |
| Reclassification adjustment for (gains) losses on available-for-sale securities | (131) | 1,259 | (181) | 1,154 |
| Net change in unrealized gains (losses) on hedging transactions | (480) | 1,583 | (9,252) | 3,781 |
| Reclassification adjustment for (gains) losses on hedging transactions | 2,522 | (1,018) | 4,693 | (3,022) |
| Cumulative translation adjustment, net | 5 | 394 | (4,188) | 2,831 |
| Other comprehensive income (loss) | 8,945 | (5,284) | (5,684) | 3,178 |
| Total comprehensive income (loss) | $248,305 | $(17,769) | $639,425 | $321,688 |

[1] Prior year balances have been restated to reflect the retrospective application of the new revenue recognition accounting standard. Please refer to "Note 2. Recent Accounting Changes and Accounting Pronouncements."

See notes to condensed consolidated financial statements.

Table of Contents

XILINX, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

| (In thousands, except par value amounts) | December 29, 2018 (unaudited) | March 31, 2018 [1] |
|---|---|---|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | $ 1,929,521 | $ 2,179,328 |
| Short-term investments | 1,540,131 | 1,268,242 |
| Accounts receivable, net | 359,367 | 382,246 |
| Inventories | 283,329 | 236,077 |
| Prepaid expenses and other current assets | 60,004 | 88,695 |
| Total current assets | 4,172,352 | 4,154,588 |
| Property, plant and equipment, at cost | 880,281 | 855,023 |
| Accumulated depreciation and amortization | (563,021) | (550,906) |
| Net property, plant and equipment | 317,260 | 304,117 |
| Long-term investments | 83,803 | 97,896 |
| Goodwill | 340,719 | 162,421 |
| Acquisition-related intangibles, net | 82,532 | 4,123 |
| Other assets | 358,098 | 337,402 |
| Total Assets | $ 5,354,764 | $ 5,060,547 |
| LIABILITIES AND STOCKHOLDERS’ EQUITY | | |
| Current liabilities: | | |
| Accounts payable | $ 111,916 | $ 98,999 |
| Accrued payroll and related liabilities | 232,953 | 206,367 |
| Income taxes payable | 41,839 | 47,713 |
| Other accrued liabilities | 66,310 | 59,680 |
| Current portion of long-term debt | 499,851 | 499,186 |
| Total current liabilities | 952,869 | 911,945 |
| Long-term debt | 1,221,438 | 1,214,440 |
| Long-term income taxes payable | 489,411 | 523,864 |
| Other long-term liabilities | 53,851 | 49,945 |
| Commitments and contingencies (Note 17) | | |
| Stockholders' equity: | | |
| Preferred stock, $.01 par value (none issued and outstanding) | — | — |
| Common stock, $.01 par value | 2,531 | 2,534 |
| Additional paid-in capital | 942,744 | 878,672 |
| Retained earnings | 1,723,713 | 1,513,656 |
| Accumulated other comprehensive loss | (31,793) | (34,509) |
| Total stockholders’ equity | 2,637,195 | 2,360,353 |
| Total Liabilities and Stockholders’ Equity | $ 5,354,764 | $ 5,060,547 |

[1] Prior year balances have been restated to reflect the retrospective application of the new revenue recognition accounting standard. Please refer to "Note 2. Recent Accounting Changes and Accounting Pronouncements."

See notes to condensed consolidated financial statements.

5

Table of Contents

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

| (In thousands) | Nine Months Ended December 29, 2018 | December 30, 2017 [1] |
|---|---|---|
| Cash flows from operating activities: | | |
| Net income | $645,109 | $318,510 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation | 49,097 | 34,416 |
| Amortization | 23,461 | 12,619 |
| Stock-based compensation | 109,194 | 105,209 |
| Amortization of debt discounts | 890 | 2,254 |
| Provision for deferred income taxes | (9,040) | (367,508) |
| Others | 7,796 | 2,858 |
| Changes in assets and liabilities: | | |
| Accounts receivable, net | 22,879 | (98,365) |
| Inventories | (46,573) | 367 |
| Prepaid expenses and other current assets | 13,151 | (8,656) |
| Other assets | (25,141) | (27,292) |
| Accounts payable | 11,013 | (18,966) |
| Accrued liabilities | 30,652 | 59,110 |
| Income taxes payable | (29,280) | 563,178 |
| Net cash provided by operating activities | 803,208 | 577,734 |
| Cash flows from investing activities: | | |
| Purchases of available-for-sale securities | (1,340,057) | (2,211,372) |
| Proceeds from sale and maturity of available-for-sale securities | 1,080,850 | 1,939,245 |
| Purchases of property, plant and equipment and other intangibles | (60,803) | (28,940) |
| Acquisition of business, net of cash acquired | (233,941) | (1,364) |
| Other investing activities | (37,572) | (16,423) |
| Net cash used in investing activities | (591,523) | (318,854) |
| Cash flows from financing activities: | | |
| Repurchases of common stock | (161,551) | (310,806) |
| Taxes paid related to net share settlements of restricted stock units | (42,029) | (44,428) |
| Proceeds from issuance of common stock through various stock plans | 18,436 | 19,602 |
| Payment of dividends to stockholders | (272,860) | (263,751) |
| Repayment of convertible debt | — | (457,918) |
| Proceeds from issuance of long-term debt, net | — | 745,175 |
| Other financing activities | (3,488) | (1,988) |
| Net cash used in financing activities | (461,492) | (314,114) |
| Net (decrease) increase in cash and cash equivalents | (249,807) | (55,234) |
| Cash and cash equivalents at beginning of period | 2,179,328 | 966,695 |
| Cash and cash equivalents at end of period | $1,929,521 | $911,461 |
| Supplemental disclosure of cash flow information: | | |
| Interest paid | $57,514 | $38,115 |
| Income taxes paid, net | $101,557 | $18,093 |

[1] Prior year balances have been restated to reflect the retrospective application of the new revenue recognition accounting standard. Please refer to "Note 2. Recent Accounting Changes and Accounting Pronouncements."

See notes to condensed consolidated financial statements.

Table of Contents

XILINX, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1. Basis of Presentation

The accompanying interim condensed consolidated financial statements have been prepared in conformity with United States (U.S.) generally accepted accounting principles (GAAP) for interim financial information and the instructions to Form 10-Q and Article 10 of Regulation S-X, and should be read in conjunction with the Xilinx, Inc. (Xilinx or the Company) consolidated financial statements filed with the U.S. Securities and Exchange Commission (SEC) on Form 10-K for the fiscal year ended March 31, 2018. 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 30, 2019 or any future period.

The Company uses a 52- to 53-week fiscal year ending on the Saturday nearest March 31. Fiscal 2019 and fiscal 2018 are both 52-week years ending on March 30, 2019 and March 31, 2018, respectively. The quarters ended December 29, 2018 and December 30, 2017 each consisted of 13 weeks.

Note 2. Recent Accounting Changes and Accounting Pronouncements

Recent Accounting Pronouncements Adopted

Revenue Recognition

In April 2014, the Financial Accounting Standards Board (FASB) issued the authoritative guidance, as amended, that outlines a new revenue recognition standard that replaces virtually all existing U.S. GAAP guidance on contracts with customers and the related other assets and deferred costs. The authoritative guidance provides a five-step process for recognizing revenue that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled, in exchange for those goods or services. The new guidance also requires expanded qualitative and quantitative disclosures relating to the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The new guidance is required to be applied retrospectively to each prior reporting period presented (Full Retrospective), or retrospectively with the cumulative effect of initially applying it recognized at the date of initial application. The Company adopted the new guidance on April 1, 2018, using the Full Retrospective method and restated the comparative prior periods. The Company implemented internal controls and certain system functionality to enable the preparation of financial information on adoption.
As a result of the adoption of the authoritative guidance, the Company changed its accounting policy for revenue recognition and the details of the significant changes and quantitative impact of the changes are disclosed below:
Revenue from sales to the Company's distributors is recognized upon shipment of the product to the distributors (sell-in) and is reduced by estimated allowances for distributor price adjustments and rights of return. Previously, revenue was recognized upon reported resale of the product by the distributors to their customers (sell-through) as reduced by actual allowances for distributor price adjustments. Revenue from software license agreements, software license renewals, and other contracts are recognized at point of sales, whereas previously these were deferred and recognized over the contractual term before the implementation of the authoritative guidance. Revenue recognition related to the Company's other revenue streams, such as direct customers, remains unchanged.

The adoption of this authoritative guidance has an impact on the Company’s condensed consolidated statements of income and balance sheets, but has no impact on net cash provided by or used in operating, financing, or investing activities on the condensed consolidated statements of cash flows.
The impact on the Company's previously reported condensed consolidated statement of income resulting from the adoption of the authoritative guidance is as follows:

Table of Contents

| (In thousands, except per share amounts) | Three Months Ended December 30, 2017 | | Nine Months Ended December 30, 2017 | |
|---|---|---|---|---|
| | As Reported | As Adjusted | As Reported | As Adjusted |
| Net revenues | $631,193 | $598,603 | $1,866,142 | $1,828,832 |
| Cost of revenues | 182,156 | 177,969 | 559,037 | 554,478 |
| Gross margin | 449,037 | 420,634 | 1,307,105 | 1,274,354 |
| Operating expenses: | | | | |
| Research and development | 166,231 | 166,231 | 477,267 | 477,267 |
| Selling, general and administrative | 92,753 | 92,753 | 272,981 | 272,981 |
| Amortization of acquisition-related intangibles | 353 | 353 | 1,568 | 1,568 |
| Total operating expenses | 259,337 | 259,337 | 751,816 | 751,816 |
| Operating income | 189,700 | 161,297 | 555,289 | 522,538 |
| Interest and other income, net | 5,469 | 5,469 | 9,138 | 9,138 |
| Income before income taxes | 195,169 | 166,766 | 564,427 | 531,676 |
| Provision for income taxes | 183,224 | 179,251 | 217,705 | 213,166 |
| Net income (loss) | $11,945 | $(12,485 ) | $346,722 | $318,510 |
| Net income (loss) per common share: | | | | |
| Basic | $0.05 | $(0.05 ) | $1.39 | $1.28 |
| Diluted | $0.05 | $(0.05 ) | $1.34 | $1.23 |
| Shares used in per share calculations: | | | | |
| Basic | 254,089 | 254,089 | 248,671 | 248,671 |
| Diluted | 258,108 | 254,089 | 258,995 | 258,995 |

The impact on the Company's previously reported condensed consolidated balance sheet line items affected by the adoption of the authoritative guidance is as follows:

| (In thousands) | March 31, 2018 | |
|---|---|---|
| | As Reported | As Adjusted |
| Accounts receivable | $372,144 | $382,246 |
| Other assets | 342,644 | 337,402 |
| Deferred income on shipments to distributors | 25,166 | — |
| Other accrued liabilities | 59,772 | 59,680 |
| Retained earnings | $1,483,538 | $1,513,656 |

Financial Instruments

In January 2016, the FASB issued final authoritative guidance regarding how companies measure equity investments that do not result in consolidation and are not accounted for under the equity method and how they present changes in the fair value of financial liabilities measured under the fair value option that are attributable to their own credit. The authoritative guidance also changes certain disclosure requirements and other aspects of current U.S. GAAP on this matter. The authoritative guidance does not change the guidance for classifying and measuring investments in debt securities and loans. The authoritative guidance is effective for public business entities for annual periods beginning after December 15, 2017, and interim periods within those annual periods. The Company adopted this authoritative guidance on April 1, 2018 and recorded the balance of the unrealized losses of $11.0 million as of the end of fiscal 2018 from its investment in debt mutual funds and equity securities to retained earnings, less the related deferred taxes of $2.6 million. Subsequent changes in fair value from such investments are recorded in the condensed consolidated statements of income.

8

Table of Contents

Income Taxes

In October 2016, the FASB issued authoritative guidance on income taxes which eliminates the deferred tax effects of intra-entity asset transfers other than inventory. As a result, a reporting entity would recognize the tax expense from the sale of an asset in the seller’s tax jurisdiction when the transfer occurs, even though the pre-tax effects of that transaction are eliminated in consolidation. The authoritative guidance is effective for public business entities in fiscal years beginning after December 15, 2017 and requires the adoption be applied on a modified retrospective basis through a cumulative-effect adjustment to retained earnings. The Company adopted this authoritative guidance on April 1, 2018. Accordingly, $13.8 million of prepaid taxes associated with prior period intra-entity asset transfers was reclassified to retained earnings.

Recent Accounting Pronouncements Not Yet Adopted

Leases

In February 2016, the FASB issued authoritative guidance on leases. The new authoritative guidance requires the recognition of assets and liabilities arising from lease transactions on the balance sheet and will also require significant additional disclosures about the amount, timing and uncertainty of cash flows from leases. Accordingly, a lessee will recognize a lease asset for its right to use the underlying asset and a lease liability for the corresponding lease obligation. The new authoritative guidance is effective for public business entities for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years, which for Xilinx would be the first quarter of fiscal 2020. Even though early adoption is permitted, Xilinx has decided not to early adopt such authoritative guidance. This authoritative guidance must be adopted using a modified retrospective transition with application of the new authoritative guidance for leases that existed at or are entered after the beginning of the earliest comparative period presented. To help with the transition to the new guidance, certain practical expedients are provided.

On July 30, 2018, the FASB provided entities with an additional (and optional) transition method to adopt the new lease requirements by allowing entities to initially apply the requirements by recognizing a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. Consequently, an entity’s reporting for the comparative periods presented in the financial statements in which the entity adopts the new lease requirements would continue to be in accordance with current GAAP. An entity electing this additional (and optional) transition method must provide the required disclosures for all periods that continue to be in accordance with current GAAP. The amendments do not change the existing disclosure requirements in current GAAP. The amendments have the same effective date as the new leases standard, which for Xilinx would be the first quarter of fiscal 2020.

The Company plans to adopt the new standard using the optional adoption method and apply the guidance to leases existing at, or entered into after, the beginning of the period of adoption, as well as certain practical expedients permitted under the transition guidance. The Company is currently evaluating the application of the new guidance and it believes the impact upon adoption will be the recognition of right-of-use assets and lease liabilities on the Company's consolidated balance sheets of an insignificant amount.

Cloud Computing Arrangements

On August 29, 2018, the FASB issued new guidance requiring a customer in a cloud computing arrangement (i.e., hosting arrangement) that is a service contract to follow the internal-use software guidance to determine which implementation costs to capitalize as assets or expense as incurred. Capitalized implementation costs related to a hosting arrangement that is a service contract will be amortized over the term of the hosting arrangement, beginning when the module or component of the hosting arrangement is ready for its intended use. Entities will need to maintain appropriate records to capture the portion of their costs that qualify for capitalization. For public entities, the guidance is effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years, which for Xilinx would be the first quarter of fiscal 2021. Early adoption is permitted, including adoption in any interim period. Entities have the option to apply the guidance prospectively to all implementation costs incurred after the date of adoption or retrospectively. The Company is currently evaluating the impact of this new authoritative guidance on its condensed consolidated financial statements.

Note 3. Significant Customers and Concentrations of Credit Risk

Avnet, Inc. (Avnet), one of the Company’s distributors, distributes the Company’s products worldwide. As of December 29, 2018 and March 31, 2018, Avnet accounted for 40% and 61% of the Company’s total net accounts receivable, respectively. The Company expects its accounts receivable to fluctuate as the Company partners with its distributors to manage their inventory requirements. For the third quarter and first nine months of fiscal 2019, Avnet's revenue accounted for 42% and 46% of the Company's worldwide

Table of Contents

net revenues, respectively. For the third quarter and first nine months of fiscal 2018, Avnet's revenue accounted for 41% and 43% of the Company’s worldwide net revenues, respectively.

Xilinx is subject to concentrations of credit risk primarily in its trade accounts receivable and investments in debt securities to the extent of the amounts recorded on the 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. Xilinx generally does not require collateral for receivables from its end customers or distributors.

No end customer accounted for more than 10% of the Company’s worldwide net revenues for the third quarter and first nine months of fiscal 2019 and 2018.

The Company mitigates concentrations of credit risk in its investments in debt securities by currently investing approximately 93% of its portfolio in AA (or its equivalent) or higher grade securities as rated by Standard & Poor’s or Moody’s Investors Service. The Company’s methods to arrive at investment decisions are not solely based on the rating agencies’ credit ratings. Xilinx also performs additional credit due diligence and conducts regular portfolio credit reviews, including a review of counterparty credit risk related to the Company’s forward currency exchange and interest rate swap contracts. Additionally, Xilinx limits its investments in the debt securities of a single issuer based upon the issuer’s credit rating and attempts to further mitigate credit risk by diversifying risk across geographies and type of issuer.

As of December 29, 2018, approximately 20% of the portfolio consisted of mortgage-backed securities. All of the mortgage-backed securities in the investment portfolio were issued by U.S. government-sponsored enterprises and agencies and are rated AA+ by Standard & Poor’s and Aaa by Moody’s Investors Service.

Note 4. Fair Value Measurements

The authoritative guidance for fair value measurements established by the FASB defines fair value as the exchange price that would be received from selling an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities required or permitted to be recorded at fair value, the Company considers the principal or most advantageous market in which Xilinx would transact. The Company also considers assumptions that market participants would use when pricing the asset or liability, such as inherent risk, transfer restrictions and risk of nonperformance.

The Company determines the fair value for marketable debt securities using industry standard pricing services, data providers and other third-party sources and by internally performing valuation testing and analysis. The Company primarily uses a consensus price or weighted-average price for its fair value assessment. The Company determines the consensus price using market prices from a variety of industry standard pricing services, data providers, security master files from large financial institutions and other third-party sources and uses those multiple prices as inputs into a distribution-curve-based algorithm to determine the daily market value. The pricing services use multiple inputs to determine market prices, including reportable trades, benchmark yield curves, credit spreads and broker/dealer quotes as well as other industry and economic events. For certain securities with short maturities, such as discount commercial paper and certificates of deposit, the security is accreted from purchase price to face value at maturity. If a subsequent transaction on the same security is observed in the marketplace, the price on the subsequent transaction is used as the current daily market price and the security will be accreted to face value based on the revised price.

The Company validates the consensus prices by taking random samples from each asset type and corroborating those prices using reported trade activity, benchmark yield curves, binding broker/dealer quotes or other relevant price information. There have not been any changes to the Company's fair value methodology during the third quarter and first nine months of fiscal 2019 and the Company did not adjust or override any fair value measurements as of December 29, 2018.

Fair Value Hierarchy

The fair value framework requires the categorization of assets and liabilities into three levels based upon the assumptions (inputs) used to price the assets or liabilities. The guidance for fair value measurements requires that assets and liabilities carried at fair value be classified and disclosed in one of the following categories:

Level 1 — Quoted (unadjusted) prices in active markets for identical assets or liabilities.

The Company's Level 1 assets consist of U.S. government securities, money market funds and marketable equity securities.

Table of Contents

Level 2 — Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the asset or liability.

The Company’s Level 2 assets consist of financial institution securities, non-financial institution securities, U.S. agency securities, foreign government and agency securities, mortgage-backed securities, debt mutual funds, asset-backed securities and commercial mortgage-backed securities. The Company’s Level 2 assets and liabilities also include foreign currency forward contracts and interest rate swap contracts.

Level 3 — Unobservable inputs to the valuation methodology that are supported by little or no market activity and that are significant to the measurement of the fair value of the assets or liabilities. Level 3 assets and liabilities include those whose fair value measurements are determined using pricing models, discounted cash flow methodologies or similar valuation techniques, as well as significant management judgment or estimation.

The Company has no Level 3 assets and liabilities measured at fair value on a recurring basis.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

In instances where the inputs used to measure fair value fall into different levels of the fair value hierarchy, the fair value measurement has been determined based on the lowest level input that is significant to the fair value measurement in its entirety. The Company’s assessment of the significance of a particular item to the fair value measurement in its entirety requires judgment, including the consideration of inputs specific to the asset or liability. The following tables present information about the Company’s assets and liabilities measured at fair value on a recurring basis as of December 29, 2018 and March 31, 2018:

Table of Contents

| (In thousands) | December 29, 2018 Quoted Prices in Active Markets for Identical Instruments (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total Fair Value |
|---|---|---|---|---|
| Assets | | | | |
| Cash equivalents: | | | | |
| Money market funds | $408,025 | $— | $ — | $408,025 |
| Financial institution securities | — | 399,368 | — | 399,368 |
| Non-financial institution securities | — | 390,622 | — | 390,622 |
| U.S. government and agency securities | 159,974 | 160,110 | — | 320,084 |
| Foreign government and agency securities | — | 325,996 | — | 325,996 |
| Short-term investments: | | | | |
| Financial institution securities | — | 225,000 | — | 225,000 |
| Non-financial institution securities | — | 232,463 | — | 232,463 |
| U.S. government and agency securities | 2,654 | 87,880 | — | 90,534 |
| Foreign government and agency securities | — | 74,959 | — | 74,959 |
| Mortgage-backed securities | — | 705,284 | — | 705,284 |
| Asset-backed securities | — | 83,005 | — | 83,005 |
| Commercial mortgage-backed securities | — | 124,820 | — | 124,820 |
| Marketable equity securities | 4,066 | — | — | 4,066 |
| Long-term investments: | | | | |
| Debt mutual funds | — | 83,803 | — | 83,803 |
| Total assets measured at fair value | $574,719 | $2,893,310 | $ — | $3,468,029 |
| Liabilities | | | | |
| Derivative financial instruments, net | $— | $25,578 | $ — | $25,578 |
| Total liabilities measured at fair value | $— | $25,578 | $ — | $25,578 |
| Net assets measured at fair value | $574,719 | $2,867,732 | $ — | $3,442,451 |

Table of Contents

| (In thousands) | March 31, 2018<br>Quoted Prices in Active Markets for Identical Instruments (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total Fair Value |
|---|---|---|---|---|
| Assets | | | | |
| Cash equivalents: | | | | |
| Money market funds | $1,291,891 | $— | $ — | $1,291,891 |
| Financial institution securities | — | 359,901 | — | 359,901 |
| Non-financial institution securities | — | 242,904 | — | 242,904 |
| U.S. government and agency securities | 996 | 34,999 | — | 35,995 |
| Foreign government and agency securities | — | 179,957 | — | 179,957 |
| Short-term investments: | | | | |
| Financial institution securities | — | 75,000 | — | 75,000 |
| Non-financial institution securities | — | 81,939 | — | 81,939 |
| U.S. government and agency securities | 3,639 | 19,008 | — | 22,647 |
| Mortgage-backed securities | — | 844,397 | — | 844,397 |
| Asset-backed securities | — | 91,389 | — | 91,389 |
| Commercial mortgage-backed securities | — | 152,870 | — | 152,870 |
| Long-term investments: | | | | |
| Debt mutual funds | — | 89,670 | — | 89,670 |
| Marketable equity securities | 8,226 | — | — | 8,226 |
| Total assets measured at fair value | $1,304,752 | $2,172,034 | $ — | $3,476,786 |
| Liabilities | | | | |
| Derivative financial instruments, net | $— | $26,091 | $ — | $26,091 |
| Total liabilities measured at fair value | $— | $26,091 | $ — | $26,091 |
| Net assets measured at fair value | $1,304,752 | $2,145,943 | $ — | $3,450,695 |

For certain of the Company’s financial instruments, including cash held in banks, accounts receivable and accounts payable, the carrying amounts approximate fair value due to their short maturities, and are therefore excluded from the fair value tables above.

Financial Instruments Not Recorded at Fair Value on a Recurring Basis

The Company's $500.0 million principal amount of 2.125% notes due March 15, 2019 (2019 Notes), $500.0 million principal amount of 3.000% notes due March 15, 2021 (2021 Notes) and $750.0 million principal amount of 2.950% senior notes due June 1, 2024 (2024 Notes) are measured at fair value on a quarterly basis for disclosure purposes. The fair values of the 2019 Notes, 2021 Notes and 2024 Notes as of December 29, 2018 were approximately $498.7 million, $498.0 million and $716.0 million, respectively, based on the last trading price for the period (classified as Level 2 in fair value hierarchy due to relatively low trading volume).

Assets and Liabilities Measured at Fair Value on a Non-Recurring Basis

As of December 29, 2018, the Company had non-marketable equity securities in private companies of $61.0 million, which were classified as Level 3 assets. The Company’s investments in non-financial assets such as property, plant and equipment, goodwill and acquisition-related intangibles, are recorded at fair value only if the Company recognizes an impairment. The Company’s investments in non-marketable securities of private companies are also recorded at fair value if the Company recognizes an observable price adjustment or an impairment. Such impairment losses or observable price adjustments were not material during all periods presented.

Note 5. Financial Instruments

Table of Contents

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

| (In thousands) | December 29, 2018 Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value | March 31, 2018 Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value |
|---|---|---|---|---|---|---|---|---|
| Money market funds | $408,025 | $ — | $ — | $408,025 | $1,291,891 | $ — | $ — | $1,291,891 |
| Financial institution securities | 624,368 | — | — | 624,368 | 434,901 | — | — | 434,901 |
| Non-financial institution securities | 624,516 | — | (1,431 ) | 623,085 | 326,219 | — | (1,376 ) | 324,843 |
| U.S. government and agency securities | 410,858 | 17 | | | | | | |