NOTICE OF ANNUAL MEETING

AND

PROXY STATEMENT

TABLE OF CONTENTS

ACTEL CORPORATION

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

To be held on May 24, 2002

TO THE SHAREHOLDERS:

NOTICE IS HEREBY GIVEN that the Annual Meeting of Shareholders of Actel Corporation, a California corporation (Actel), will be held on May 24, 2002, at 10:30 a.m. PDT in the Consulate Room at Embassy Suites, 2885 Lakeside Drive, Santa Clara, California 95054, for the following purposes:

1. To elect directors to serve until the next Annual Meeting of Shareholders and until their successors are elected.

2. To ratify the appointment of Ernst & Young LLP as Actel's independent auditors for the fiscal year ending January 5, 2003.

3. To transact such other business as may properly come before the Annual Meeting or any adjournments thereof.

Only shareholders of record at the close of business on March 25, 2002, are entitled to notice of and to vote at the Annual Meeting.

All shareholders are cordially invited to attend the Annual Meeting in person. However, to ensure your representation at the Annual Meeting, you are urged to sign and return the enclosed Proxy as promptly as possible in the postage-prepaid, self-addressed envelope enclosed for that purpose. Any shareholder attending the Annual Meeting may vote in person even if such shareholder has returned a proxy.

BY ORDER OF THE BOARD OF DIRECTORS

David L. Van De Hey

Secretary

Sunnyvale, California
April 8, 2002

ACTEL CORPORATION

PROXY STATEMENT FOR

2001 ANNUAL MEETING OF SHAREHOLDERS

The enclosed Proxy is solicited on behalf of the Board of Directors of Actel Corporation, a California corporation (Actel), for use at the Annual Meeting of Shareholders to be held on Friday, May 24, 2002, at 10:30 a.m. PDT, and at any adjournments thereof, for the purposes set forth herein and in the accompanying Notice of Annual Meeting of Shareholders. The Annual Meeting will be held in the Consulate Room at Embassy Suites, 2885 Lakeside Drive, Santa Clara, California 95054. The telephone number at that address is (408) 496-6400.

These proxy solicitation materials were mailed on or about April 15, 2002, to all shareholders entitled to vote at the Annual Meeting.

INFORMATION CONCERNING SOLICITATION AND VOTING

Record Date

Holders of record of Actel Common Stock at the close of business on March 25, 2002 (Record Date), are entitled to notice of and to vote at the Annual Meeting. At the Record Date, 24,231,482 shares of Actel Common Stock were issued and outstanding.

Revocability of Proxies

Any proxy given pursuant to this solicitation may be revoked by the person giving it at any time before its use by (i) delivering to the Secretary of Actel a written notice of revocation or a duly executed proxy bearing a later date or (ii) attending the Annual Meeting and voting in person. The principal executive offices of Actel are located at 955 East Arques Avenue, Sunnyvale, California 94086. Actel's telephone number at that address is (408) 739-1010.

Voting and Solicitation

Each shareholder is entitled to one vote for each share held on all matters.

This solicitation of proxies is made by Actel and all related costs will be borne by Actel. In addition, Actel may reimburse brokerage firms and other persons representing beneficial owners of shares for their expenses in forwarding solicitation material to such beneficial owners. Original solicitation of proxies by mail may be supplemented by telephone, facsimile, or personal solicitation by directors, officers, or regular employees of Actel without payment of additional compensation.

Required Vote

The quorum required to conduct business at the Annual Meeting or any adjournments thereof is a majority of the shares of Common Stock issued and outstanding on the Record Date. If a quorum is present, the six candidates receiving the highest number of affirmative votes shall be elected directors;

votes against any candidate and votes withheld have no legal effect. On every other proposal set forth herein, the affirmative vote of the majority of the shares represented at the Annual Meeting and "voting" is required for approval.

Although there is no definitive California statute or case law as to the proper treatment of abstentions and broker nonvotes, Actel believes that both abstentions and broker nonvotes should be counted for purposes of determining the presence or absence of a quorum for the transaction of business. Actel also believes that neither abstentions nor broker nonvotes should be counted for purposes of determining the total number of shares represented and "voting" on each matter for which that is the required vote of the shareholders. Actel further believes that abstentions should be counted, but broker non-votes should not be counted, for purposes of determining the total number of shares represented and "entitled to vote" on each matter for which that is the required vote of the shareholders. In the absence of controlling precedent to the contrary, Actel intends to treat abstentions and broker nonvotes in the manner described in this paragraph.

Deadline for Receipt of Shareholder Proposals

Proposals of shareholders of Actel that are intended to be presented by such shareholders at Actel's 2002 Annual Meeting of Shareholders must be received by Actel no later than December 16, 2002, in order to be considered for inclusion in the proxy statement and form of proxy relating to that meeting. In addition, under Actel's Bylaws, a shareholder wishing to nominate a person for election to the Board of Directors or make a proposal at the 2003 Annual Meeting of Shareholders must submit notice of such nomination or proposal to Actel not more than 20 nor less than 60 days prior to the meeting.

Share Ownership

The following table sets forth certain information regarding the beneficial ownership of Actel Common Stock by each person who is believed by Actel to have owned beneficially more than 5% of the outstanding shares of Actel Common Stock as of the Record Date:

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Class (1)
Mellon Financial Corporation One Mellon Center Pittsburgh, Pennsylvania 12528	1,305,534 (2)	5.4%
Neuberger Berman, Inc. 605 Third Ave. New York, NY, 10158-3698	2,051,400 (3)	8.5%
State Street Research & Management Company One Financial Center, 30th Floor Boston, MA 02111-2690	1,304,100 (4)	5.4%
Wellington Management Company, LLP 75 State Street Boston, Massachusetts 02109	1,247,400 (5)	5.1%

(1) Calculated as a percentage of shares of Common Stock outstanding as of the Record Date.

(2) As reported by the beneficial owner as of December 31, 2001, in a Schedule 13G (Amendment No. 2) filed with the Securities and Exchange Commission (SEC) on January 22, 2002. The reporting person, which is a parent holding company, has sole voting power with respect to 1,095,484 shares of Common Stock, shared voting power with respect to 150,800 shares of Common Stock, and sole dispositive power with respect to 1,305,534 shares of Common Stock. The reporting person and direct or indirect subsidiaries beneficially own all of the shares in their various fiduciary capacities. As a result, another entity in every instance is entitled to dividends or proceeds of sale. The reporting person, on behalf of itself and its direct and indirect subsidiaries (including Mellon Bank, N.A., which is a bank as defined in Section 3(a)(6) of the Securities Exchange Act of 1934 (Exchange Act)), disclaims that the filing of the Schedule 13G is an admission of beneficial ownership of any such shares for the purposes of Section 13(d) or 13(g) of the Exchange Act.

(3) As reported by the beneficial owner as of December 31, 2001, in a Schedule 13G filed with the SEC on February 12, 2002. The reporting person has sole voting power with respect to 640,800 shares of Common Stock, shared voting power with respect to 1,410,600 shares of Common Stock, and shared dispositive power with respect to 2,051,400 shares of Common Stock. The reporting person, which is an investment company and a parent holding company, owns 100% of

both Neuberger Berman, LLC and Neuberger Berman Management Inc. Neuberger Berman, LLC is an investment advisor and broker/dealer with discretion. Neuberger Berman Management Inc. is an investment advisor to a Series of Public Mutual Funds. Neuberger Berman Genesis Fund Portfolio, a series of Equity Managers Trust, beneficially owns 1,318,600 shares of Common Stock. Neuberger Berman, LLC and Neuberger Berman Management Inc. serve as sub-adviser and investment manager, respectively, of Neuberger Berman Genesis Fund Portfolio, which holds such shares in the ordinary course of its business and not with the purpose nor with the effect of changing or influencing the control of the issuer. Employee(s) of Neuberger Berman, LLC own 700 shares of Common Stock in their own personal securities accounts; Neuberger Berman, LLC disclaims beneficial ownership of these shares. The balance of the shares with respect to which the reporting person has shared voting power are held by Neuberger Berman's various other Funds. Neuberger Berman, LLC is the sub-advisor to such Funds. Neuberger Berman, LLC also has the sole power to vote the shares of many unrelated clients. The clients are the actual owners of those shares and have the sole right to receive and the power to direct the receipt of dividends from or proceeds from the sale of such shares.

(4) As reported by the beneficial owner as of December 31, 2001, in a Schedule 13G filed with the SEC on February 15, 2002. The reporting person, which is an investment adviser registered under Section 203 of the Investment Advisers Act of 1940, has sole power to vote or to direct the vote of 1,276,000 shares of Common Stock and sole power to dispose or to direct the disposition of 1,304,100 shares of Common Stock. The reporting person disclaims any beneficial interest in any of such shares.

(5) As reported by the beneficial owner as of December 31, 2001, in a Schedule 13G filed with the SEC on February 12, 2002. The reporting person, which is an investment adviser and a parent holding company or control person, has shared voting power with respect to 550,300 shares of Common Stock and shared dispositive power with respect to 1,247,400 shares of Common Stock. The shares were acquired by Wellington Trust Company, NA, 75 State Street, Boston MA 02109, a wholly-owned subsidiary of Wellington Management Company, LLP and a bank as defined in Section 3(a)(6) of the Exchange Act. The shares are owned of record by clients of the reporting person. Those clients have the right to receive, or the power to direct the receipt of, dividends from, or the proceeds from the sale of, such shares.

PROPOSAL NO. 1 — ELECTION OF DIRECTORS

Nominees

A board of six directors is to be elected at the Annual Meeting. Unless otherwise instructed, the proxy holders will vote the proxies received by them for the nominees named below. If any nominee of Actel is unable or declines to serve as a director at the time of the Annual Meeting, the proxies will be voted for any nominee who shall be designated by the present Board of Directors to fill the vacancy. Actel is not aware of any nominee who will be unable or will decline to serve as a director. The term of office of each person elected as a director will continue until the next Annual Meeting and until a successor has been elected.

The Board of Directors recommends that shareholders vote "FOR" the nominees listed below:

Name of Nominee	Age	Principal Occupation	Director Since
John C. East	57	President and Chief Executive Officer Actel Corporation	1988
James R. Fiebiger (1)	60	Chairman and Chief Executive Officer Lovoltech, Inc.	2000
Jos C. Henkens (2)	49	General Partner Advanced Technology Ventures	1988
Jacob S. Jacobsson (2)	48	President and Chief Executive Officer Forte Design Systems	1998
Frederic N. Schwettmann (1)(2)	62	Retired	1990
Robert G. Spencer (1)	58	Principal The Spencer Group	1989

(1) Member of Audit Committee.

(2) Member of Compensation Committee.

Mr. East has served as President, Chief Executive Officer, and a director of Actel since December 1988. Mr. East also serves, at Actel's request, as a director of Adaptec, Inc.

Mr. Fiebiger has been a director of Actel since December 2000. Since December 1999, he has been Chairman and Chief Executive Officer of Lovoltech, Inc., a privately held semiconductor company specializing in low voltage devices. He also serves as a director of Artest Corporation, Mentor Graphics Corporation, QLogic Corporation, and a private company. Mr. Fiebiger was Vice Chairman and

Managing Director of Technology Licensing of GateField Corporation, a semiconductor company that Actel purchased in November 2000, from 1998 to 2000, and President, Chief Executive Officer, and a director of GateField from 1996 to 1998.

Mr. Henkens has been a director of Actel since April 1988. He also served as a director of Actel from October 1985 to July 1986. Mr. Henkens has been a general partner of Advanced Technology Ventures, a venture capital firm, for the past five years. Mr. Henkens also serves as a director of Credence Systems Corporation, Docent, Inc., and various private companies.

Mr. Jacobsson has been a director of Actel since May 1998. Since November 2000, he has been President, Chief Executive Officer, and a director of Cynapps, Inc. and its successor by merger, Forte Design Systems, a privately-held company that will offer products and services for the hierarchical design and verification of large, complex systems and integrated circuits. For the five years before that, he was President and Chief Executive Officer of SCS Corporation, a privately held semiconductor company in the Radio Frequency Identification area. Mr. Jacobsson also serves as a director of various private companies.

Mr. Schwettmann has been a director of Actel since April 1990. He is retired. Mr. Schwettmann was President, Chief Operating Officer, and a director of Read-Rite Corporation, the leading independent supplier of thin-film magnetic recording heads for Winchester disk drives, from May 1993 until September 1997. From June 1990 to May 1993, Mr. Schwettmann served on Actel's Board of Directors as the representative of Hewlett-Packard Company, where he was Vice President and General Manager of the Circuit Technologies Group.

Mr. Spencer has been a director of Actel since February 1989. He has been the principal of The Spencer Group, a consulting firm, for the past five years.

There is no family relationship between any director or executive officer of Actel and any other director or executive officer of Actel.

Board Meetings and Committees

During Actel's 2001 fiscal year, which ended January 6, 2002, the Board of Directors held five meetings, the Board's Audit Committee held four meetings, and the Board's Compensation Committee held four meetings. All directors attend at least 75% of the aggregate number of meetings of the Board of Directors and all committees of the Board of Directors on which he served.

The Audit Committee, which currently consists of Messrs. Fiebiger, Schwettmann, and Spencer, reviews the results and scope of the audit and other services provided by Actel's independent auditors. The Compensation Committee, which currently consists of Messrs. Henkens, Jacobsson, and Schwettmann, approves salary, benefit, and incentive compensation matters. The Board of Directors does not have a nominating committee or a committee performing the functions of a nominating committee.

Director Compensation

Cash Compensation

Directors who are not employees of Actel receive compensation for their services as directors at the rate of $1,500 per Board meeting attended and $1,000 per committee meeting attended. In addition, nonemployee directors receive an annual retainer of $12,000. Directors are also reimbursed for reasonable out-of-pocket expenses incurred in the performance of their duties.

1993 Directors' Stock Option Plan

Actel's 1993 Directors' Stock Option Plan (Director Plan) provides for the grant of nonstatutory stock options to nonemployee directors of Actel. If Actel's nominees are elected, five directors (Messrs. Fiebiger, Henkens, Jacobsson, Schwettmann, and Spencer) will be eligible to receive option grants under the Director Plan. New directors are granted an option to purchase 15,000 shares of Common Stock, which vests and become exercisable as to 25% of the shares subject to the option on the dates of Actel's annual shareholder meeting occurring in each of the first, second, third, and fourth calendar years following the date of grant. Re-elected directors are granted an option to purchase 5,000 shares of Common Stock, which vests and becomes exercisable on the date of the annual shareholder meeting in the fourth calendar year following the date of grant.

PROPOSAL NO. 2 — RATIFICATION OF APPOINTMENT OF INDEPENDENT AUDITORS

The Board of Directors has selected Ernst & Young LLP to audit the financial statements of Actel for the current fiscal year, which ends January 5, 2003. **The Board of Directors recommends that shareholders vote "FOR" ratification of the selection of Ernst & Young LLP as Actel's independent auditors.** In the event of a negative vote, the Board will reconsider its selection.

Representatives of Ernst & Young LLP are expected to be present at the Annual Meeting, will have the opportunity to make a statement if they so desire, and are expected to be available to respond to appropriate questions.

OTHER INFORMATION

Security Ownership of Management

The following table sets forth certain information regarding the beneficial ownership of Actel Common Stock as of the Record Date by (i) each director, (ii) each officer named in the Summary Compensation Table, and (iii) all directors and officers as a group:

Name	Shares Beneficially Owned (1)	Percentage Beneficially Owned (2)
John C. East (3)	367,794	1.52%
James R. Fiebiger (4)	7,500	*
Esmat Z. Hamdy (5)	103,904	*
Jos C. Henkens (6)	21,297	*
Paul V. Indaco (7)	133,355	*
Jacob S. Jacobson (8)	15,000	*
Dennis G. Kish (9)	74,060	*
Fares N. Mubarak (10)	92,062	*
Frederic N. Schwettmann (11)	37,500	*
Robert G. Spencer (12)	35,166	*
All Directors and Executive Officers as a Group (14 persons) (13)	1,154,173	4.76%

* Less than one percent.

(1) Except as indicated in the footnotes to this table and pursuant to applicable community property laws, the persons and entities named in the table have sole voting and sole investment power with respect to all shares of Common Stock beneficially owned.

(2) Calculated as a percentage of shares of Common Stock outstanding as of the Record Date.

(3) Includes 253,147 shares issuable pursuant to stock options that are exercisable within 60 days after the Record Date.

(4) Includes 7,500 shares issuable pursuant to stock options that are exercisable within 60 days after the Record Date.

(5) Includes 64,849 shares issuable pursuant to stock options that are exercisable within 60 days after the Record Date.

(6) Includes 17,500 shares issuable pursuant to stock options that are exercisable within 60 days after the Record Date.

(7) Includes 127,809 shares issuable pursuant to stock options that are exercisable within 60 days after the Record Date.

(8) Includes 15,000 shares issuable pursuant to stock options that are exercisable within 60 days after the Record Date.

(9) Includes 74,060 shares issuable pursuant to stock options that are exercisable within 60 days after the Record Date.

(10) Includes 90,005 shares issuable pursuant to stock options that are exercisable within 60 days after the Record Date.

(11) Includes 37,500 shares issuable pursuant to stock options that are exercisable within 60 days after the Record Date.

(12) Includes 32,500 shares issuable pursuant to stock options that are exercisable within 60 days after the Record Date.

(13) Includes 942,794 shares issuable pursuant to stock options that are exercisable within 60 days after the Record Date.

Certain Transactions

On February 3, 2000, David L. Van De Hey, Actel's Vice President & General Counsel, exercised options to purchase 34,952 shares of Common Stock and, as permitted under the Option Plan, tendered a promissory note for payment of the $367,674.25 purchase price. The promissory note is a full-recourse obligation secured by the shares purchased. The note has a three-year term and bears interest at the rate of 6.11% per annum, compounded semiannually. The largest aggregate amount of indebtedness outstanding under the note at any time during the last fiscal year was $402,411.50, and the amount currently outstanding under the note is $414,705.20.

Executive Compensation

Summary of Officer Compensation

The following table sets forth information concerning the compensation of the five mostly highly compensated executive officers who were serving as executive officers of Actel at the end of the last completed fiscal year:

Summary Compensation Table (1)

Name and Principal Position	Year	Annual Compensation: Salary	Annual Compensation: Bonus (2)	Annual Compensation: Other Annual Compensation	Long Term Compensation Awards: Securities Underlying Options
John C. East	2001	$ 362,800	$ 0	$ 0	125,000
President and	2000	378,863	445,044	0	140,000
Chief Executive Officer	1999	351,700	163,960	0	160,000 (5)
Fares N. Mubarak	2001	283,936	0	0	50,000
Vice President of Engineering	2000	271,250	223,111	0	65,000
	1999	238,000	97,824	0	50,000
Esmat Z. Hamdy	2001	280,957	0	0	50,000
Senior Vice President of	2000	275,434	229,261	0	63,000
Technology & Operations	1999	268,443	98,731	0	50,000 (6)
Paul V. Indaco	2001	259,064	0	8,700 (3)	50,000
Vice President of Sales	2000	256,620	221,469	8,700 (3)	52,000
	1999	210,897	79,172	46,103 (4)	155,000 (7)
Dennis G. Kish	2001	235,000	0	0	50,000
Vice President of Marketing	2000	215,697	191,760	0	65,000
	1999	55,641	3,956	0	100,000

(1) Except as set forth in this table, there was no reportable compensation awarded to, earned by, or paid to the named executive officers in 2001.

(2) Actel pays bonuses in the year following that in which the bonuses were earned, with the exception of 1999, when the majority of the bonuses were paid in the year earned.

(3) Other compensation in 2000 and 2001 related to car allowance.

(4) Other compensation in 1999 related to $7,250 car allowance and a $38,853 hiring bonus.

(5) 15,000 options granted in 1999 were cancelled.

(6) 4,000 options granted in 1999 were cancelled.

(7) 25,000 options granted in 1999 were cancelled.

Option Grants

The following table sets forth certain information with respect to stock options granted during 2001 to each of the executive officers named in the Summary Compensation Table:

Option Grants in Last Fiscal Year

	Individual Grants (1)				Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term (2)		
Name	Number of Securities Underlying Options (3)	% of Total Options Granted to Employees in Fiscal Year	Per Share Exercise Price	Expiration Date	0%	5%	10%
John C. East	125,000 (4)	5.18%	$21.90	07/31/11	$0	$ 1,721,599	$ 4,362,870
Fares N. Mubarak	50,000 (4)	2.07%	21.90	07/31/11	0	688,640	1,745,148
Esmat Z. Hamdy	50,000 (4)	2.07%	21.90	07/31/11	0	688,640	1,745,148
Paul V. Indaco	50,000 (4)	2.07%	21.90	07/31/11	0	688,640	1,745,148
Dennis G. Kish	50,000 (4)	2.07%	21.90	07/31/11	0	688,640	1,745,148

(1) The exercise price of these options is equal to the fair market value of Actel's Common Stock on the date of grant, as determined by Actel's Board of Directors. The options expire 10 years from the date of grant, are not transferable by the optionee (other than by will or the laws of descent and distribution), and are exercisable during the optionee's lifetime only by the optionee. To the extent exercisable at the time of termination, options may be exercised within 30 days following termination of the optionee's employment with Actel, unless termination is the result of total and permanent disability, in which case the options may be exercised at any time within six months following termination, or unless termination is the result of death, in which case the options become fully vested and may be exercised at any time within 12 months following death by the optionee's estate or a person who acquired the right to exercise the option by bequest or inheritance.

(2) The 0%, 5%, and 10% assumed annual rates of appreciation are mandated by the rules of the SEC and do not represent Actel's estimate or projection of future Common Stock prices. The "potential realizable value" at the assumed rates of appreciation were calculated using the applicable exercise price as the base.

(3) Options vest and are fully exercisable upon an involuntary termination other than "for cause," or a voluntary termination "for good reason," following a "change of control" of Actel.

(4) Option vests 50% on August 1, 2003, then quarterly at a rate of 6.25% until August 1, 2005.

Option Values

The following table sets forth certain information concerning the number of options exercised during 2001 by the executive officers named in the Summary Compensation Table, as well as the number and aggregate value of shares covered by both exercisable and unexercisable stock options held by such executive officers as of January 6, 2002, the end of the fiscal year.

Aggregated Option Exercises in Last Fiscal Year and Fiscal Year End Option Values

Name	Shares Acquired On Exercise	Value Realized (2)	Number of Securities Underlying Unexercised Options at Fiscal Year-End		Value of Unexercised In-the-Money Options at Fiscal Year-End (1)	
			Exercisable	Not Exercisable	Exercisable	Not Exercisable
John C. East	163,762	$ 2,202,385	202,065	381,250	$ 1,397,177	$ 1,457,234
Fares Mubarak	0	0	79,935	148,126	611,197	495,562
Esmat Z. Hamdy	23,125	243,584	54,663	152,876	320,450	565,574
Paul Indaco	0	0	101,436	145,564	844,648	472,062
Dennis G. Kish	0	0	44,999	155,001	68,099	120,276

(1) Calculated on the basis of the difference between the closing sale price as of the fiscal year end ($21.93) and the exercise price.

(2) Calculated on the basis of the difference between the exercise price and the sale price, when the exercised option is sold on the same day, or the closing sale price on the exercise date.

Change-in-Control Arrangements

Actel and its executive officers have entered into Management Continuity Agreements, which are designed to ensure continued service in the event of a "change of control." Each Agreement provides for accelerated vesting of an officer's stock options outstanding at the time of a change in control if the officer dies or in the event of an "involuntary termination" of the officer's employment other than for "cause" following the change of control.

Actel has an Employee Retention Plan, which provides that all Actel employees who hold unvested stock option as of the date of any "change of control" of Actel shall receive, upon remaining in the employ of Actel for six months following the date of such change of control (or earlier, if terminated other than for "cause" prior to the end of such six month period), an amount equal to one-third of the aggregate "spread" on their unvested options as of the date of such change of control. "Spread" is

defined as the difference between the change-of-control price and the option exercise price. Payment shall be made in cash, common stock, or a combination of cash and common stock.

"Change of control" is defined as (i) acquisition by any person of beneficial ownership of more than 30% of the combined voting power of Actel's then-outstanding securities; (ii) a change of the majority of the Board of Directors within a two-year period; (iii) the consummation of a merger or consolidation of Actel with any other corporation that has been approved by the shareholders of Actel, other than a merger or consolidation that would result in the voting securities of Actel outstanding immediately prior thereto continuing to represent at least 50% of the total voting power represented by the voting securities of Actel or the surviving entity outstanding immediately after such merger or consolidation; or (iv) approval by the shareholders of Actel of a plan of complete liquidation of Actel or an agreement for the sale or disposition by Actel of all or substantially all of Actel's assets.

Compensation Committee Report

The following report is provided to shareholders by the Compensation Committee of the Board of Directors.

Background

Since Actel's incorporation in 1986, the Compensation Committee, which is a standing committee of the Board of Directors, has been primarily responsible for establishing and reviewing Actel's management compensation policies. Since Actel's initial public offering in August 1993, the Compensation Committee has formally administered Actel's management compensation policies and plans, including the 1986 Incentive Stock Option Plan, the 1995 Employee and Consultant Stock Plan, and the 1993 Employee Stock Purchase Plan. The Compensation Committee has the same authority as the Board to act on all compensation matters, except for actions requiring shareholder approval or related to the compensation of directors.

No member of the Compensation Committee is a former or current officer or employee of Actel. The current members of the Compensation Committee are Jos C. Henkens, Jacob S. Jacobsson, and Frederic N. Schwettmann. Mr. Henkens has been a member of the Compensation Committee since 1986, Mr. Jacobsson since 1998, and Mr. Schwettmann since 1993. Meetings of the Compensation Committee are attended by Actel's Vice President of Human Resources and/or Chief Financial Officer, who provide background and market information and make executive compensation recommendations but do not vote on any matter before the Compensation Committee.

Compensation Policy

There are three major elements of Actel's executive compensation program. The first element is annual cash compensation in the form of base salary and incentive bonuses. The second element is long-term incentive stock options, which are designed to align compensation incentives with shareholder goals. The third element is compensation and employee benefits generally available to all employees of Actel, such as the 1993 Employee Stock Purchase Plan, health insurance, and a 401(k) plan.

The Compensation Committee establishes the compensation of each officer principally by considering the average compensation for officers in similar positions with 20 companies in the semiconductor, software, and CAE industries that have annual revenues between $100 million and $999

million (Reference Group). The purpose of monitoring the Reference Group is to provide a stable and continuing frame of reference for compensation decisions. Most of the companies in the Reference Group are included in the Nasdaq Electronic Component Stocks index (see "Company Stock Performance" below). The composition of the Reference Group is subject to change from year to year based on the Committee's assessment of comparability, including the extent to which the Reference Group reflects changes occurring within Actel and in the industry as a whole. Actel's policy is to have officer compensation near the average of the Reference Group.

After analyzing Reference Group base salaries and comparing them with the base salaries of Actel's officers, the Compensation Committee determines an annual salary increase budget. In February 2001, the Committee approved base salary increases averaging approximately 7% for Actel's officers. The salary increase budget is then allocated among officers on the basis of individual performance against objectives related to their respective areas of responsibility. Performance objectives are proposed by individual officers, negotiated by the executive staff, and approved by the Compensation Committee with the advice of the Chief Executive Officer. However, the salary increases approved for 2001 were not implemented in 2001 in accordance with a company-wide postponement of salary increases.

Under Actel's Executive Bonus Plan for 2001, incentive cash payments were based on Actel's revenues and profits, the achievement of corporate goals, and the growth of Actel relative to its principal competitors. The revenue and profitability objectives were established in the Plan on a sliding scale, so that the percentage achievement of each was determinable objectively at the end of the year. The corporate goals for 2001 included engineering, selling, and marketing objectives, which were weighted in the order indicated. The engineering objectives included silicon, software, and process goals. The selling objectives included sales and design-win goals. The marketing objectives included product launch and product planning goals. The revenue, profitability, and corporate goals were weighted differently under the Executive Bonus Plan for some executive officers, based on relevance to their positions, but had an aggregate weighting of 80% for all executive officers. The "competitive performance" objective accounted for the other 20%, and it was also determinable objectively at the end of the year. In 2001, Actel did not achieve the minimum levels required by the Executive Bonus Plan's revenue and profitability objectives. The result was that no bonuses were paid to executive officers for 2001. The Compensation Committee believes that the payment of no bonuses for 2001 was appropriate in light of Actel's operating results.

Actel believes that executive officers should hold substantial, long-term equity stakes in Actel so that the interests of executive officers will coincide with the interests of the shareholders. As a result, stock or stock options constitute a significant portion of the compensation paid by Actel to its officers. After analyzing the practices of the Reference Group, the Compensation Committee determines an annual budget for option grants to Actel's employees and officers. In granting stock options to officers, the Compensation Committee considers a number of factors, such as the officer's position, responsibility, and equity interest in Actel, and evaluates the officer's past performance and future potential to influence the long-term growth and profitability of Actel. After taking these considerations into account, the Compensation Committee granted in 2001 the options to purchase shares of Common Stock to Messrs. East, Hamdy, Indaco, Kish, and Mubarak shown on the "Option Grants" table. All of such options were granted at the value of Actel's Common Stock on the date of grant.

Compensation of Chief Executive Officer

The Compensation Committee generally uses the same factors and criteria described above in making compensation decisions regarding the Chief Executive Officer. In 2001, Mr. East's annual base salary remained at $381,894. A planned increase was not implemented in 2001 in accordance with a company-wide postponement of salary increases. Mr. East's 2001 bonus was determined under Actel's Executive Bonus Plan in the manner described above (except that his target bonus was 90% of his base salary) and resulted in no bonus payment for 2001.

Deductibility of Executive Compensation

Beginning in 1994, the Code limited the federal income tax deductibility of compensation paid to Actel's chief executive and to each of the other four most highly compensated executive officers. For this purpose, compensation can include, in addition to cash compensation, the difference between the exercise price of stock options and the value of the underlying stock on the date of exercise. Actel may deduct compensation with respect to any of these individuals only to the extent that during any fiscal year such compensation does not exceed $1 million or meets certain other conditions (such as shareholder approval). Considering Actel's current compensation plans and policy, Actel and the Compensation Committee believe that, for the near future, there is little risk that Actel will lose any significant tax deduction relating to executive compensation. If the deductibility of executive compensation becomes a significant issue, Actel's compensation plans and policy will be modified to maximize deductibility if Actel and the Compensation Committee determine that such action is in the best interests of Actel.

Jos C. Henkens
Jacob S. Jacobsson
Frederic N. Schwettmann

Compensation Committee Interlocks and Insider Participation

No member of the Compensation Committee is an officer or employee of Actel or any of its subsidiaries, and no officer or employee of Actel or any of its subsidiaries has served as a member of the Compensation Committee since Actel's initial public offering.

Audit Committee Report

The following report is provided to shareholders by the Audit Committee of the Board of Directors.

The Audit Committee of Actel's Board of Directors is comprised of three independent directors and operates under a written charter adopted by the Board. The members of the Committee are listed at the end of this report.

Management is responsible for Actel's internal controls and the financial reporting process. The independent accountants (auditors) are responsible for performing an independent audit of Actel's consolidated financial statements in accordance with generally accepted auditing standards and issuing a

report thereon. The Committee's responsibility is to monitor these processes. In addition, the Committee recommends to the Board the appointment of Actel's auditors (Ernst & Young LLP).

In this context, the Committee has discussed with Actel's auditors the overall scope and plans for the independent audit. Management represented to the Committee that Actel's consolidated financial statements were prepared in accordance with generally accepted accounting principles.

Discussions about Actel's audited financial statements included the auditors' judgments about the quality, not just the acceptability, of the accounting principles, the reasonableness of significant judgments, and the clarity of disclosures in the financial statements. The Committee also discussed with the auditors other matters required by Statement on Auditing Standards (SAS) No. 61, Communication with Audit Committees, as amended by SAS No. 90, Audit Committee Communications.

Actel's auditors provided to the Committee the written disclosures required by Independence Standards Board Standard No. 1, Independence Discussions with Audit Committees, and the Committee discussed the auditors' independence with management and the auditors. In addition, the Committee considered whether the non-audit professional services (which consisted mostly of tax-related matters) provided by the auditors' firm impaired the auditors' independence and concluded that such services have not impaired the auditors' independence.

Based on the Committee's discussion with management and the auditors and the Committee's review of the representations of management and the report of the auditors to the Committee, the Committee recommended to the Board that the audited consolidated financial statements be included in Actel's Annual Report on Form 10-K for the 2001 fiscal year filed with the Securities and Exchange Commission.

James R. Fiebiger
Frederic N. Schwettmann
Robert G. Spencer

Audit Fees

The aggregate fees billed for professional services rendered by Actel's auditors, Ernst & Young LLP, for the most recent fiscal year consisted of the following:

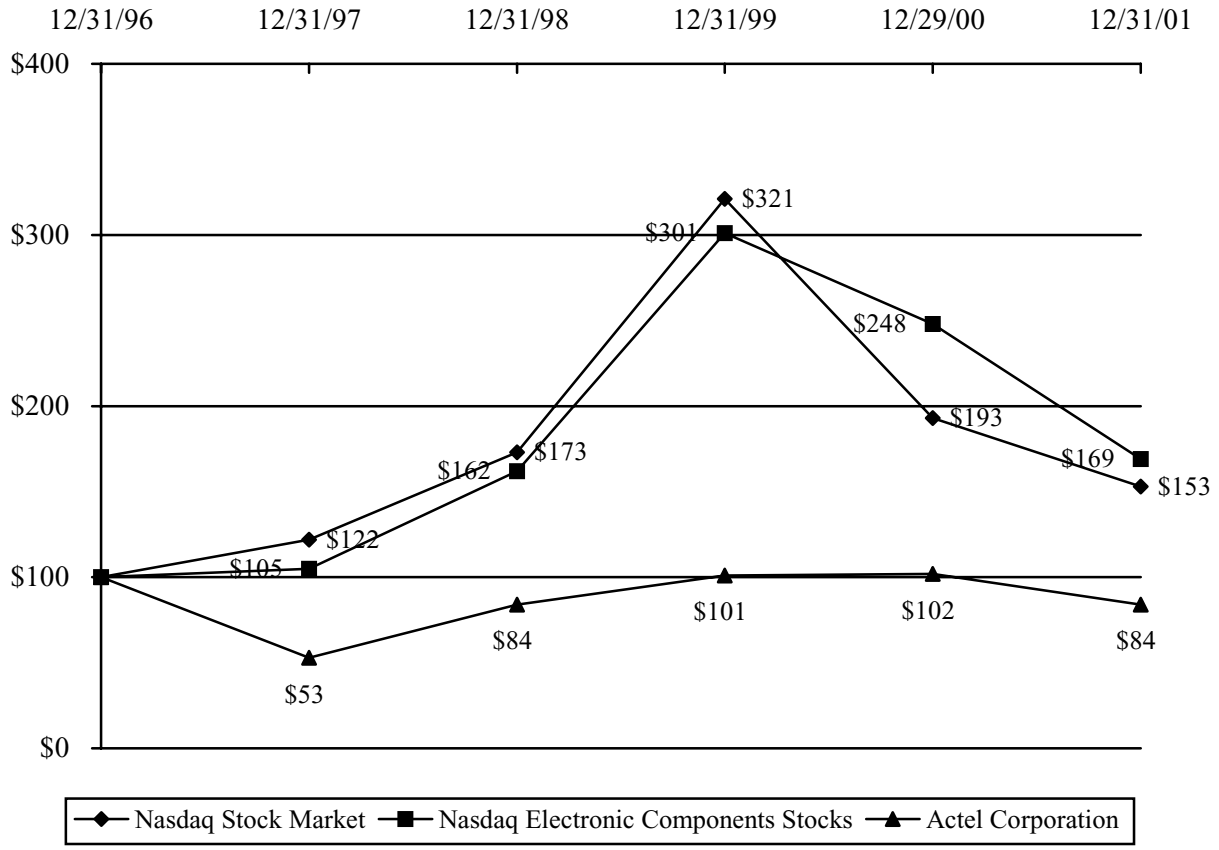
Audit Fees	$327,811
Audit Related Fees	16,545
Financial Information Systems Designs and Implementation Fees	0
All Other Fees (1)	407,757

(1) Consists entirely of tax-related services performed in connection with state and federal tax returns, as well as other tax consulting matters.

Company Stock Performance

The following graph shows a comparison of cumulative total return for Actel Common Stock, The Nasdaq Stock Market (US), and Nasdaq Electronic Component Stocks. In preparing the graph, it was assumed that (i) $100 was invested on December 31, 1996, in Actel Common Stock, The Nasdaq Stock Market (US), and Nasdaq Electronic Component Stocks and (ii) all dividends were reinvested.

Comparison of Cumulative Total Return



The closing sale price of Actel Common Stock on December 31, 2001, was $19.91. The closing sale price of Actel Common Stock on April 5, 2002, was $20.13.

COMPLIANCE WITH SECTION 16(a) OF THE SECURITIES EXCHANGE ACT OF 1934

To Actel's knowledge, based solely on review of the copies of such reports furnished to Actel, all directors, officers, and beneficial owners of more than ten percent of Common Stock of Actel filed with the SEC on a timely basis all reports required by Section 16(a) of the Exchange Act during Actel's most recent fiscal year, except that Mr. East's Form 4 for March 2001 was filed one day late due to a clerical error. In his Form 4 for March 2001, Mr. East reported three transactions, all of which were exercises of stock options the exercise price of which was paid by the delivery to Actel by attestation of shares of Actel Common Stock.

OTHER MATTERS

Actel knows of no other matters to be submitted to the Annual Meeting. If any other matters properly come before the Annual Meeting, it is the intention of the persons named in the enclosed proxy card to vote the shares they represent as the Board of Directors may recommend.

BY ORDER OF THE BOARD OF DIRECTORS

David L. Van De Hey

Secretary

Dated: April 8, 2002

ACTEL WILL MAIL WITHOUT CHARGE TO ANY SHAREHOLDER UPON WRITTEN REQUEST A COPY OF ACTEL'S ANNUAL REPORT ON FORM 10-K FOR THE YEAR ENDED JANUARY 6, 2002, INCLUDING THE FINANCIAL STATEMENTS AND SCHEDULE AND A LIST OF EXHIBITS. REQUESTS SHOULD BE SENT TO INVESTOR RELATIONS, ACTEL CORPORATION, 955 EAST ARQUES AVENUE, SUNNYVALE, CALIFORNIA 94086-4533.

MD&A

AND

FINANCIAL STATEMENTS

TABLE OF CONTENTS

ACTEL CORPORATION

SELECTED CONSOLIDATED FINANCIAL DATA
(in thousands, except per share data)

	Years Ended December 31,				
	2001	**2000**	**1999**	**1998**	**1997**
Consolidated Statements of Operations Data:					
Net revenues	**$ 145,559**	$ 226,419	$ 171,661	$ 154,427	$ 155,858
Costs and expenses:					
Cost of revenues	**62,210**	84,680	66,387	61,642	64,244
Research and development	**38,172**	36,599	32,338	31,220	26,465
Selling, general, and administrative	**41,464**	47,960	45,903	40,558	40,317
Amortization of goodwill and other acquisition-related intangibles	**14,757**	8,056	2,226	1,185	877
Restructuring charge (1)	**—**	—	1,963	—	—
Purchased in-process research and development (2)	**—**	10,646	600	—	—
Total costs and expenses	**156,603**	187,941	149,417	134,605	131,903
Income (loss) from operations	**(11,044)**	38,478	22,244	19,822	23,955
Interest income and other, net of expense	**7,280**	8,310	3,642	2,380	1,842
Gain on sale of Chartered common stock (3)	**—**	28,329	—	—	—
Income (loss) before tax provision and equity interest in net (loss) of equity method investee	**(3,764)**	75,117	25,886	22,202	25,797
Equity interest in net (loss) of equity method investee (4)	**—**	(2,445)	(193)	—	—
Tax provision	**937**	31,227	8,055	7,215	9,029
Net income (loss)	**$ (4,701)**	$ 41,445	$ 17,638	$ 14,987	$ 16,768
Net income (loss) per share:					
Basic	**$ (0.20)**	$ 1.77	$ 0.81	$ 0.71	$ 0.82
Diluted	**$ (0.20)**	$ 1.58	$ 0.76	$ 0.68	$ 0.76
Shares used in computing net income (loss) per share:					
Basic	**23,743**	23,447	21,664	21,251	20,370
Diluted	**23,743**	26,233	23,058	21,921	21,968

ACTEL CORPORATION

SELECTED CONSOLIDATED FINANCIAL DATA (Continued)
(in thousands, except per share data)

	As of December 31,				
	2001	**2000**	**1999**	**1998**	**1997**
Consolidated Balance Sheet Data:					
Working capital	**$ 161,871**	$ 146,952	$ 108,818	$ 85,858	$ 76,279
Total assets	**290,082**	312,434	259,211	179,708	159,994
Total shareholders' equity	**237,680**	230,101	178,630	127,054	109,010

(1) During the second quarter of 1999, Actel completed a restructuring plan that resulted in a reduction in force along with the elimination of certain projects and non-critical activities. See Note 6 of Notes to Consolidated Financial Statements for further discussion of components of this expense.

(2) The 2000 expenses represent charges for in-process research and development arising from Actel's acquisitions of Prosys Technology, Inc. and GateField Corporation. The 1999 expense represents a charge for in-process research and development incurred in the fourth quarter of 1999 in connection with Actel's acquisition of AutoGate Logic, Inc. See Note 5 of Notes to Consolidated Financial Statements for further discussion of these expenses.

(3) During the second quarter of 2000, Actel sold all of its shares of Chartered Semiconductor Manufacturing Ltd. common stock for proceeds of $39.0 million, resulting in a one-time gain of $28.3 million before tax. See Note 4 of Notes to Consolidated Financial Statements for further discussion of this gain.

(4) Represents Actel's equity share of net losses of GateField Corporation in accordance with the equity method of accounting prior to the purchase acquisition completed on November 15, 2000. See Note 5 of Notes to Consolidated Financial Statements for further discussion of this expense.

MANAGEMENT'S DISCUSSION AND ANALYSIS

OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Actel Corporation (Actel) designs, develops, and markets field programmable gate arrays (FPGAs) and associated development tools, intellectual property (IP) cores, and services. FPGAs are used by designers of communications, computer, consumer, industrial, military and aerospace, and other electronic systems to differentiate their products and get them to market faster. Actel is the leading supplier of FPGAs based on flash and antifuse technologies.

The *italicized statements* contained in this Management's Discussion and Analysis of Financial Condition and Results of Operations are forward-looking statements made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Actual events and results may differ materially from those expressed or forecast in the forward-looking statements due to the Risk Factors identified in Part I of Actel's Annual Report on Form 10-K for 2001, which is incorporated herein by this reference, or for other reasons.

Results of Operations

The following table sets forth certain financial data from the Consolidated Statements of Operations expressed as a percentage of net revenues:

	Years Ended December 31,		
	2001	**2000**	**1999**
Net revenues	**100.0%**	100.0%	100.0%
Cost of revenues	**42.7**	37.4	38.7
Gross margin	**57.3**	62.6	61.3
Research and development	**26.2**	16.2	18.8
Selling, general, and administrative	**28.6**	21.2	26.7
Amortization of goodwill and other acquisition-related intangibles	**10.1**	3.6	1.3
Restructuring charge	**—**	—	1.2
Purchased in-process research and development	**—**	4.6	0.3
Income (loss) from operations	**(7.6)**	17.0	13.0
Interest income and other, net of expense	**5.0**	3.7	2.1
Gain on sale of Chartered common stock	**—**	12.5	—
Income (loss) before tax provision and equity interest in net (loss) of equity method investee	**(2.6)**	33.2	15.1
Equity interest in net (loss) of equity method investee	**—**	(1.1)	(0.1)
Tax provision	**0.6**	13.8	4.7
Net income (loss)	**(3.2%)**	18.3%	10.3%

Actel's fiscal year ends on the first Sunday after December 30. Fiscal 2001, 2000, and 1999 ended on January 6, 2002, December 31, 2000, and January 2, 2000, respectively. Accordingly, fiscal 2001 was a fifty-three week fiscal year, rather than a normal fifty-two week fiscal year. For ease of presentation, December 31 has been indicated as the fiscal year-end for all years.

Net Revenues

Net revenues for 2001 were $145.6 million, a decline of 36% from 2000. This compares with an increase in net revenues of 32% for 2000 from 1999. Actel derives its revenues primarily from the sale of FPGAs, which accounted for 96% of net revenues for 2001, 2000, and 1999. Non-FPGA revenues are derived from Actel's Protocol Design Services organization, royalties, and the sale of software, hardware, and maintenance.

The decline in net revenues for 2001 compared with 2000 was due principally to a decrease of 11% in the overall average selling price (ASP) of FPGAs and a decrease of 28% in unit shipments. ASP was lower because of a shift in the mix of products shipped toward newer products, which in general have lower ASPs than more mature products. Unit shipments were down due to lower customer demand across all market segments and geographic regions as the result of a general softening in the world economy, with the most notable decline in the communications market.

The increase in net revenues for 2000 compared with 1999 was due principally to an increase of 12% in the overall ASP of FPGAs and an increase of 18% in unit shipments. ASP was higher due mostly to increased sales of higher ASP products to customers in the communications and satellite markets. Unit shipments were higher primarily because of increased sales of MX product.

Actel generates a majority of its revenues from the sale of its products through distributors. Actel's principal distributors are Unique Technologies, Inc. (Unique) and Pioneer-Standard Electronics, Inc. (Pioneer). During 2001, Actel consolidated its distribution channel by terminating its distributor relationship with Arrow Electronics, Inc. (Arrow). The following table sets forth, for each of the last three years, the percentage of revenues derived from all customers accounting for 10% or more of net revenues in any of such years:

	2001	2000	1999
Pioneer	**20%**	13%	12%
Unique	**19**	15	13
Arrow	**13**	17	16
Nortel Networks	**2**	11	9

Actel does not recognize revenue on product shipped to a distributor until the distributor resells the product to its customer.

Sales to customers outside the United States accounted for 38%, 32%, and 29% of net revenues for 2001, 2000, and 1999, respectively. Export sales increased as a percentage of total sales for 2001 compared with 2000 primarily because sales to European customers dropped only 6% while sales to customers in the United States declined by 42%. The largest portion of export sales is made to European customers, which accounted for 28%, 19%, and 17% of net revenues for 2001, 2000, and 1999, respectively.

Gross Margin

Gross margin for 2001 was 57% of net revenues, compared with 63% for 2000 and 61% for 1999. Gross margin for 2001 fell from a year ago due primarily to higher inventory write-offs in the second and third quarters of 2001, which were taken as a result of lower forecasted customer demand. Excess capacity associated with lower net revenues also contributed to the reduction. Gross margin for 2000

improved from 1999 primarily as a result of a 12% increase in ASP, improved sort yields (especially on the newer products), and better utilization of manufacturing capacity associated with higher net revenues.

Actel seeks to reduce costs by improving wafer yields, negotiating price reductions with suppliers, increasing the level and efficiency of its testing and packaging operations, achieving economies of scale by means of higher production levels, and increasing the number of die produced per wafer, principally by shrinking the die size of its products. No assurance can be given that these efforts will be successful. The capability of Actel to shrink the die size of its FPGAs is dependent on the availability of more advanced manufacturing processes. Due to the custom steps involved in manufacturing antifuse and (to a lesser extent) flash FPGAs, Actel typically obtains access to new manufacturing processes later than its competitors using standard manufacturing processes.

Research and Development (R&D)

R&D expenditures for 2001 were $38.2 million, or 26% of net revenues, compared with $36.6 million, or 16% of net revenues, for 2000 and $32.3 million, or 19% of net revenues, for 1999. R&D expenditures increased primarily as a result of spending on technologies acquired in Actel's acquisitions of GateField Corporation (GateField), a developer of flash-based FPGA products, in November 2000 and of Prosys Technology (Prosys), an embedded FPGA IP developer, in June 2000. R&D spending on the acquired companies' technologies was included for all of 2001, part of 2000, and none of 1999.

R&D expenditures for 2001 also increased due to $1.3 million of incremental spending on a BridgeFPGA initiative that Actel announced during the second quarter of 2001 to address interoperability problems created by the proliferation of high-performance interface standards. In support of the BridgeFPGA initiative, Actel also announced a plan to increase R&D spending from second quarter 2001 levels by an aggregate of $8.0 to $10.0 million over a period of approximately six quarters. *R&D spending as a percentage of sales is expected to return to levels more consistent with Actel's historical experience in 2003.*

Actel's R&D consists of circuit design, software development, and process technology activities. Actel believes that continued substantial investment in R&D is critical to maintaining a strong technological position in the industry. Since Actel's antifuse and flash FPGAs are manufactured using customized processes, Actel's R&D expenditures will probably always be higher as a percentage of net revenues than that of its major competitors using standard manufacturing processes.

Selling, General, and Administrative (SG&A)

SG&A expenses for 2001 were $41.5 million, or 29% of net revenues, compared with $48.0 million, or 21% of net revenues for 2000 and $45.9 million, or 27% of net revenues, for 1999. SG&A expenses for 2001 declined by 14% compared with 2000 primarily as the result of lower selling expenses (primarily sales bonuses and outside sales commissions) associated with the 36% decrease in net revenues. The lower selling expenses were partially offset by an increase of 12 in SG&A headcount during 2001, mostly in the second half of the year. Headcount increased in sales and marketing to support Actel's new products. SG&A expenses for 2000 increased by 4% compared with 1999, while Actel's net revenues increased by 32%. Selling expenses increased in 2000 primarily due to the increase in net revenues.

Amortization of Goodwill and Other Acquisition-Related Intangibles

Amortization of goodwill and other acquisition-related intangibles for 2001 was $14.8 million, compared with $8.1 million for 2000 and $2.2 million for 1999. The increases were due to the timing of the Prosys and GateField acquisitions, which were completed on June 2, 2000, and November 15, 2000, respectively. Amortization of goodwill and other acquisition-related intangibles from the Prosys and GateField acquisitions were included for all of 2001, part of 2000, and none of 1999. Amortization expense related to the goodwill and other intangible assets acquired in the GateField and Prosys acquisitions was $13.3 million in 2001, $4.1 million in 2000, and none in 1999. Amortization expense for 2000 was also impacted by $2.4 million of amortization charges through November 15, 2000, related to Actel's pre-acquisition equity investment in GateField. Beginning in 2002, goodwill will no longer be amortized but will be subject to annual impairment tests and written down only when impaired. All other intangible assets with a finite useful life will continue to be amortized over their estimated useful lives. See "Impact of Recently Issued Accounting Standards" and Note 5 of Notes to Consolidated Financial Statements for further discussion of these expenses.

Restructuring Charge

During the second quarter of 1999, Actel completed a restructuring plan that resulted in a reduction in force as well as the elimination of certain projects and non-critical activities. The total pretax restructuring charges for these activities amounted to $2.0 million. These measures were taken to reduce spending and sharpen Actel's focus on new product development. As of December 31, 1999, all restructuring reserves had been fully utilized. See Note 6 of Notes to Consolidated Financial Statements for further discussion of the restructuring charges.

Purchased In-Process Research and Development Expenses

GateField

In November 2000, Actel completed its acquisition of GateField in a transaction accounted for as a purchase. The in-process research and development (IPRD) expense associated with this purchase resulted in a one-time charge of $5.1 million during the fourth quarter of 2000.

IPRD was identified and valued through extensive interviews and analysis of data provided by GateField concerning developmental products, their stage of development, the time, cost, and resources needed to complete them, and associated risks. The income approach, which bases the value of an asset on its future earnings capacity, was utilized in valuing the IPRD. This approach values an asset based on the future cash flows projected to be generated by the asset over its estimated useful life. To estimate the value of the IPRD, the future cash flows were discounted to their present value utilizing a discount rate (25%) that would provide sufficient return to a potential investor. At the date of acquisition, the in-process technology had no alternative future use and was not ready for commercial production.

GateField commenced development efforts on the next-generation ProASIC product beginning in 2000. The development efforts included adding features, such as increased input-output speed, an improved programming mechanism, increasing the number of routing tracks and the number of available gates, and migrating the ProASIC technology from a 0.25-micron to a 0.22-micron manufacturing process. GateField had invested significant time and effort in

developing this product family but, at the time of acquisition, it had not yet reached technological feasibility. At the time of the acquisition, GateField estimated the project was approximately 50% complete and would be complete in the first quarter of 2001. The percentage was based on GateField having expended 11.7 man-years prior to the acquisition and the need to expend an estimated 11.5 man-years following the acquisition to complete the product. Given that there was significant technological risk relating to the development of the next-generation ProASIC product and that not even the first-generation ProASIC product had generated any revenue, this product family met the definition of in-process technology and was classified as such.

The fair value of the estimated discounted cash flows of the next-generation ProASIC was calculated to be $5.1 million on November 15, 2000. The fair value calculation was based on future cash flows anticipated in the years 2001 through 2005, with associated gross margin and expense levels as a percentage of revenues gradually improving to current Actel operating levels by 2003.

Actel introduced the next-generation ProASIC product (ProASIC Plus) in January 2002, approximately one year later than estimated at the time of acquisition. The delay in introduction confirms the uncertainties that existed at the time of acquisition and supports the initial classification of the technology as IPRD. *Management does not believe the delay had a material impact on the value attributed to the technology because no similar competing products were introduced and the marketability of the next-generation product was not materially diminished. Based on facts and circumstances currently known, management believes the value attributed to the IPRD is still materially valid.*

Prosys

In June 2000, Actel announced and completed its acquisition of Prosys in a transaction accounted for as a purchase. The IPRD expense associated with this purchase resulted in a one-time charge of $5.6 million during the second quarter of 2000.

IPRD was identified and valued through extensive interviews and analysis of data provided by Prosys concerning developmental products, their stage of development, the time, cost, and resources needed to complete them, and associated risks. The income approach, as discussed above, and a discount rate of 25% was utilized in valuing the IPRD. At the date of acquisition, the in-process technology had no alternative future use and had not reached technological feasibility.

As of the valuation date, Prosys had no developed products in the marketplace and was in the process of developing a 4x4 embedded block SRAM-based FPGA core and had planned an 8x8 embedded block SRAM-based FPGA core. These IP cores allow other semiconductor companies to embed functional blocks of programmable logic into their silicon designs. Prosys indicated that the 4x4 embedded block was expected to be completed in late 2000, following the development of key software features. The 8x8 embedded block core was estimated to require approximately six- to nine-months of additional development effort after the completion of the 4x4 embedded block core. The planned development time of six- to nine-months was based on leveraging the technology available from the 4x4 embedded block core. As of the valuation date, Prosys had incurred development costs of approximately $3.1 million related to the 4x4 embedded block core and estimated that an additional $1.3 million of R&D was required to complete the development of this product. Thus, the in-process 4x4 embedded block core was

estimated to be approximately 70% complete. Since the 8x8 embedded block core will leverage technology from the 4x4 embedded block core in process, the 8x8 embedded block core was estimated to be 35% complete in its development. These products were in development at the time of acquisition and there was significant technological risk at that time related to completing development of these products. Accordingly, the 4x4 embedded block core and the 8x8 embedded block core were classified as in-process technology.

The fair value of the estimated discounted cash flows of the Prosys in-process technology was calculated to be $5.6 million on June 2, 2000. The fair value calculation was based on future cash flows anticipated in the years 2000 through 2005, with associated gross margin and expense levels as a percentage of revenues gradually improving to current Actel operating levels by 2002.

The 4x4 embedded block core was introduced in February 2001 as the VariCore Embedded Programmable Gate Array (EPGA) IP core. Due to the recent downturn in the semiconductor industry, revenues from VariCore EPGAs are materializing slower than anticipated. Given the low level of demand during 2001 for embedded cores, the development effort on the 8x8 embedded core was postponed. Development of the 8x8 embedded block core may resume when demand for embedded cores increases. *Management does not believe that the delay of one quarter in the completion of the 4x4 embedded block core, the postponement of the development of the 8x8 embedded block core, or the delay in the realization of significant revenues from the VariCore EPGA technology are sufficient at this time to impact the values attributed to the IPRD, goodwill, and intangible assets. Based on facts and circumstances current known, the lack of any significant revenues is seen as a delay rather than a reduction in expected revenues, so management believes the value attributed to the IPRD is still materially valid.*

Interest Income and Other, Net of Expense

Interest and other income for 2001, 2000, and 1999 were $7.3 million, $8.3 million, and $3.6 million, respectively. The decrease in interest and other income for 2001 was due mainly to lower interest rates that Actel earned on its cash, cash equivalents, and short-term investments. The decrease was also due to a drop in amounts available for investment by Actel during the year. The increase in interest and other income for 2000 compared with 1999 was due primarily to increased amounts available for investment by Actel during the year. The combined balance of cash, cash equivalents, and short-term investments was $128.8 million at the end of 2001 compared with $140.8 million at the end of 2000 and $107.1 million at the end of 1999. Moreover, the amount available for investment during most of 2000 was significantly higher than the ending balance due to cash usage in the fourth quarter for the purchase of GateField ($24.0 million) and stock repurchases ($21.0 million).

Gain on Sale of Chartered Common Stock

During the second quarter of 2000, Actel sold all 515,000 shares of Chartered Semiconductor Manufacturing Ltd. (Chartered) common stock that Actel owned for a one-time gain of $28.3 million.

Equity Interest in Net Loss of Equity Method Investee

Prior to Actel's acquisition of GateField on November 15, 2000, Actel accounted for its investments in and agreements with GateField under the equity method of accounting. Actel began accounting for its equity interest in GateField under the equity method of accounting during the third

quarter of 1999. Actel incurred charges of $2.4 million in 2000 and $0.2 million in 1999 for its equity interest in the net loss of GateField.

Tax Provision

Excluding the effect of certain non-recurring acquisition-related charges and investment gains, Actel's effective tax rates for 2001, 2000, and 1999 were 8.9%, 31.3%, and 31.4%, respectively. Significant components affecting this effective tax rate include federal R&D credits, income from tax-exempt securities, the state composite rate, and recognition of certain deferred tax assets subject to valuation allowances as of December 31, 2000, and December 31, 1999, respectively. The effective tax rate for 2001 decreased primarily due to reduced profitability, which increased the percentage benefit from R&D tax credits, and to tax exempt income.

Financial Condition, Liquidity, and Capital Resources

Actel's total assets were $290.1 million at the end of 2001, compared with $312.4 million at the end of 2000. The decrease in total assets was attributable principally to decreases in cash, cash equivalents, short-term investments, accounts receivable, and goodwill. The following table sets forth certain financial data from the consolidated balance sheets expressed as percentage change from December 31, 2000, to December 31, 2001:

Cash, cash equivalents, and short-term investments	**(8.5)%**
Accounts receivable, net	**(42.7)**
Inventories	**42.5**
Property and equipment, net	**20.8**
Goodwill, net	**(20.6)**
Other assets, net (primarily deferred income taxes and purchased intangible assets other than goodwill)	**(2.7)**
Total assets	**(7.2)**
Total current liabilities	**(38.8)**
Total liabilities	**(36.4)**
Shareholders' equity	**3.3**

Cash, Cash Equivalents, and Short-Term Investments

Actel's cash, cash equivalents, and short-term investments were $128.8 million at the end of 2001, compared with $140.8 million at the end of 2000. This decrease of $12.0 million, or 8.5%, from the end of 2000 was due primarily to purchases of property and equipment of $9.5 million and net cash used in operating activities of $10.3 million, which were partially offset by cash provided from the issuance of common stock under employee stock plans of $7.7 million.

The significant components within operating activities that provided cash during 2001 included $17.4 million from the net results for the year adjusted for non-cash items ($21.8 million of which relates to depreciation and amortization) and cash generated through decreases in accounts receivable of $12.5 million. The significant components within operating activities that resulted in a reduction of cash from operations in 2001 included cash used in the reduction of accounts payable, accrued salaries and employee benefits, and other accrued liabilities of $14.1 million, the reduction in deferred income of $18.1 million, and an increase in inventories of $10.8 million.

Actel meets all of its funding needs for ongoing operations with internally generated cash flows from operations and with existing cash and short-term investment balances. Revenues declined and inventories grew during 2001, resulting in a net use of cash from operations. As 2001 demonstrates, sales can decline more rapidly than expenses, limiting the availability of cash generated internally to fund ongoing operations.

The following represents contractual commitments associated with operating leases and royalty and licensing agreements:

	Payments Due by Period				
	Total	2002	2003	2004	2005 and later
Operating leases	$ 5,711	$ 3,575	$ 1,901	$ 235	$ —
Royalty/licensing agreements	11,097	2,747	2,575	2,575	3,200
Total	$ 16,808	$ 6,322	$ 4,476	$ 2,810	$ 3,200

Actel has entered into royalty/licensing agreements where Actel's contractual commitments are dependent upon future contingencies, such as technological development by software vendors. Management considers it reasonably likely that the development will be successfully completed during 2002 resulting in the following additional contingent obligations:

	Payments Due by Period				
	Total	2002	2003	2004	2005 and later
Royalty/licensing agreements	$ 11,611	$ 2,820	$ 2,999	$ 2,842	$ 2,950

At December 31, 2001, Actel also had a number of purchase commitments from wafer manufacturers for raw materials orders that were expected to be filled within ninety days. The wafer purchase commitments represent a normal level of outstanding orders and are not material.

Actel believes that existing cash, cash equivalents, and short-term investments, together with cash generated from operations, will be sufficient to meet its cash requirements for 2002. A portion of available cash may be used for investment in or acquisition of complementary businesses, products, or technologies. Wafer manufacturers are increasingly demanding financial support from customers in the form of equity investments and advance purchase price deposits, which in some cases are substantial. Should Actel require additional capacity, it may be required to incur significant expenditures to secure such capacity.

Actel believes that the availability of adequate financial resources is a substantial competitive factor. To take advantage of opportunities as they arise, or to withstand adverse business conditions when they occur, it may become prudent or necessary for Actel to raise additional capital. Actel monitors the availability and cost of potential capital resources, including equity and debt with a view toward raising additional capital on terms that are acceptable to Actel. No assurance can be given that additional capital will become available on acceptable terms.

Accounts Receivable

Actel's net accounts receivable was $16.8 million at the end of 2001, compared with $29.3 million at the end of 2000. This decrease was due primarily to lower sales. Accounts receivable

for 2001 decreased by 43% compared with 2000, while Actel's net revenues decreased by 36%. Days sales outstanding were 43 days at the end of 2001, compared with 41 days at the end of 2000.

Inventories

Actel's inventories were $36.3 million at the end of 2001, compared with $25.5 million at the end of 2000. Inventories increased during 2001 because sales declined at a more rapid rate than Actel's receipt of raw materials. *Based on reductions in the orders for raw materials that Actel has implemented, Actel believes that net inventory levels will be lower at end of 2002 than at the end of 2001.* Inventory days of supply increased from 105 days in 2000 to 265 days in 2001. Since Actel's FPGAs are manufactured using customized steps that are added to the standard manufacturing processes of its independent wafer suppliers, Actel's manufacturing cycle is generally longer and hence more difficult to adjust in response to changing demands or delivery schedules. Accordingly, Actel's inventory model (120 days) will probably always be higher than that of its major competitors using standard processes.

Property and Equipment

Actel's net property and equipment was $14.7 million at the end of 2001, compared with $12.1 million at the end of 2000 due to higher capital spending in 2001. Actel invested $9.5 million in property and equipment in 2001, compared with $6.2 million in 2000, to support the development and introduction of new products. Capital expenditures during the past two years have been primarily for engineering, manufacturing, and office equipment. Depreciation of property and equipment was $7.0 million in 2001, compared with $7.4 million for 2000.

Goodwill

Actel's net goodwill decreased to $37.2 million at the end of 2001, compared with $46.8 million at the end of 2000. Net goodwill declined primarily because of amortization expense of $11.7 million recorded during 2001. Also during 2001, $1.7 million in additional goodwill was recorded to reflect $1.1 million of stock issued and $0.6 million of cash paid to the former security holders of Prosys upon the attainment of certain technological milestones defined in the June 2000 purchase agreement. See "Impact of Recently Issued Accounting Standards" and Note 5 of Notes to Consolidated Financial Statements for further discussion of adjustments to goodwill.

Goodwill is recorded when the consideration paid in an acquisition exceeds the fair value of the net tangible and intangible assets acquired. Historically and through 2001, goodwill and other acquisition-related intangibles have been amortized on a straight-line basis over their useful lives. In accordance with Statement of Financial Accounting Standards (SFAS) No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," Actel recognizes impairment losses on long-lived assets when indicators of impairment are present and the undiscounted cash flows estimated to be generated by those assets are less than amounts at which the assets are carried on Actel's books. The impairment loss is measured by comparing the fair value of the asset to its carrying value. Fair value is estimated based on discounted future cash flows. Reviews have been regularly performed to determine whether facts or circumstances exist indicating impairment. No impairment has been indicated to date. Beginning in 2002, goodwill will no longer be amortized but will be subject to annual impairment tests and written down only when impaired. All other intangible assets with a finite useful life will continue to be amortized over their estimated useful lives.

Other Assets

Actel's other assets decreased to $26.0 million at the end of 2001, compared with $26.7 million at the end of 2000. The decrease was due primarily to $3.1 million of amortization of intangible assets, which was partially offset by the fair value of plan assets ($2.1 million) associated with Actel's deferred compensation plan. The plan is funded with participant contributions through payroll withholding.

Current Liabilities

Actel's total current liabilities were $50.4 million at the end of 2001, compared with $82.3 million at the end of 2000. The decrease was due principally to a reduction of $18.1 million in deferred income from lower shipments to distributors and a reduction in accounts payable of $4.8 million associated with lower inventory purchases. Accrued salaries and employee benefits fell by $10.0 million as a result of lower vacation accruals and management and sales bonus accruals in 2001. During the year, vacation accruals were reduced by mandatory vacation days implemented as a cost savings measure. Management and sales bonus accruals were lower during 2001 due to the lower operating results.

Shareholders' Equity

Shareholders' equity was $237.7 million at the end of 2001, compared with $230.1 million at the end of 2000. The increase included proceeds of $7.7 million from the sale of common stock under employee stock plans, $2.7 million of tax benefits arising from employee stock plans, and $1.1 million of stock issued to Prosys security holders pursuant to the achievement of certain technological milestones specified in the Prosys purchase agreement. These increases were partially offset by a net loss of $4.7 million.

Employees

At the end of 2001, Actel had 521 full-time employees, including 143 in marketing, sales, and customer support; 167 in R&D; 157 in operations; 17 in Protocol Design Services; and 37 in administration and finance. This compares with 484 full-time employees at the end of 2000, an increase of 8%. Net revenues were approximately $279,000 per employee for 2001, compared with approximately $468,000 for 2000, which represents a decrease of 40%.

Impact of Recently Issued Accounting Standards

In June 2001, the Financial Accounting Standards Board (FASB) issued SFAS No. 141, "Business Combinations," and SFAS No. 142, "Goodwill and Other Intangible Assets." These standards become effective for fiscal years beginning after December 15, 2001. Beginning in Actel's 2002 fiscal year, goodwill will no longer be amortized but will be subject to annual impairment tests and written down only when impaired. All other intangible assets with a finite useful life will continue to be amortized over their estimated useful lives. As of December 31, 2001, unamortized goodwill was $37.2 million. The amortization expense related to goodwill for the year ended December 31, 2001, was $11.7 million. For 2002, goodwill will not be amortized, resulting in the elimination of approximately $11.8 million of amortization expense that otherwise would have been recognized as expense. Other intangible assets, with a net book value of $10.0 million at December 31, 2001, will continue to be amortized over their estimated useful lives. The amortization expense associated with other intangible assets amounted to $3.1 million in 2001. Actel will carry out an impairment review of goodwill and other intangible assets during the first half of 2002, as required by SFAS 142. Accordingly, management is still

evaluating the impact that the adoption of SFAS 142 will have on Actel's financial position, operating results, or cash flows.

In October 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." This standard supersedes SFAS 121. Although retaining many of the fundamental recognition and measurement provisions of SFAS 121, the new rules significantly change the criteria that must be met to classify an asset as held-for-sale. The standard also supersedes certain provisions of Accounting Principles Board Opinion (APB) No. 30, "Reporting the Results of Operations — Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions." SFAS 144 will require expected future operating losses from discontinued operations to be displayed in discontinued operations in the period(s) in which the losses are incurred rather than as of the measurement date, as presently required. SFAS 144 becomes effective for fiscal years beginning after December 15, 2001. Actel will adopt SFAS 144 in the first quarter of 2002 and does not expect the adoption of SFAS 144 to have a material impact on Actel's financial position, operating results, or cash flows.

Critical Accounting Policies and Estimates

Actel's discussion and analysis of its financial condition and results of operations are based upon Actel's consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires Actel to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues, and expenses and the related disclosure of contingent assets and liabilities. The U.S. Securities and Exchange Commission has defined the most critical accounting policies as the ones that are most important to the portrayal of Actel's financial condition and results, and requires management 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 upon this definition, Actel's most critical policies include: Inventories, Impairment of Investments in Other Companies, Intangible Assets and Goodwill, Income Taxes, and Legal Matters. These policies are discussed below, as well as the estimates and judgments involved. Actel bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ materially from these estimates. Actel also has other key accounting policies, such as policies for Revenue and Accounts Receivable. These other policies either do not generally require management to make estimates and judgments that are as difficult or as subjective, or it is less likely that they would have a material impact on Actel's reported results of operations for a given period.

Inventories

As of December 31, 2001, Actel had an inventory balance of $36.3 million. Management believes that a certain level of inventory must be carried to maintain an adequate supply of product for customers. This inventory level may vary based upon either orders received from customers or internal forecasts of demand for these products. Other considerations in determining inventory levels include the stage of products in the product life cycle, design win activity, manufacturing lead times, customer demands, strategic relationships with foundries, and competitive situations in the marketplace. Should any of these factors have a result other than anticipated, inventory levels may be adversely and materially affected.

Actel writes down its inventory for estimated obsolescence or unmarketable inventory equal to the difference between the cost of inventory and the estimated realizable value based upon assumptions about future demand and market conditions. To address this difficult, subjective, and complex area of judgment, Actel applies a methodology that includes assumptions and estimates to arrive at the net realizable value. First, Actel identifies any inventory that has been previously reserved in prior periods. This inventory remains reserved until sold, destroyed, or otherwise dispositioned. Second, Actel's quality assurance personnel examine inventory line items that may have some form of obsolescence due to non-conformance with electrical and mechanical standards. Third, Actel assesses the inventory not otherwise identified to be reserved against product history and forecasted demand, typically six months. Finally, the result of this methodology is analyzed by management in light of the product life cycle, design win activity, and competitive situations in the marketplace to derive an outlook for consumption of the inventory and the appropriateness of the resulting inventory levels. If actual future demand or market conditions are less favorable than those projected by management, additional inventory write-downs may be required.

Impairment of Investments in Other Companies

Actel occasionally makes equity investments in public or private companies for the promotion of business and strategic objectives. Actel monitors its equity investments for impairment on a periodic basis. In the event that the carrying value of the equity investment exceeds its fair value, and the decline in value is determined to be other than temporary, the carrying value is reduced to its current fair value.

At December 31, 2001, Actel held an investment in a publicly-traded equity security with a market value of $4.6 million included in short-term investments and an unrealized loss of $1.0 million included in other comprehensive income/(loss). In accordance with SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities," if the decline in value below cost is determined to be other than temporary, the unrealized losses will be realized as expense on the income statement in the period when that determination is made. Actel determines a decline in market value to be other than temporary when, in the absence of other mitigating factors, a stock has traded below cost for a consecutive six-month period. If this investment continues to trade below cost for more than six months, and other mitigating factors such as general economic and industry specific trends were to adversely change, this investment will be evaluated for impairment and written down to a balance equal to the fair value at the time of impairment, with the amount of the write-down realized as expense on the income statement. *Based on management's assessment of industry trends, the volatility and trading volumes of this equity security, as well as the fact that the investment has traded at below original cost for less than six consecutive months, management concluded that the decline in value was temporary and no impairment existed at December 31, 2001.*

At December 31, 2001, Actel held an equity investment that represented a 14% equity interest in a company located in the United Kingdom. This investment is carried at its cost of $2.2 million on the balance sheet as part of other assets. As this equity security is not publicly traded, determining the fair value of this investment is judgmental in nature and dependant on management's assessment of the performance of the company, which includes, among other things, successfully developing and introducing a new technology into the market as well as obtaining additional funding to finance these activities until the company can generate positive cash flows from the sale of the new products. This investment is subject to a multitude of risks, including but not limited to the risks that the company may not be successful in developing the planned technology, that the company may not be able to secure necessary funding to continue operations, that a suitable market for such technology may not develop, or that a competitor may develop a superior product. If any of these risks materialize, or other indicators of

possible impairment arise, the investment will be evaluated for impairment and written down to a balance equal to the fair value at the time of impairment, with the amount of the write-down realized as an expense on the income statement. *Based on the progress made toward technological goals and the expectation of future marketability of the technology under development, Actel concluded no impairment of this investment existed at December 31, 2001.*

Intangible Assets and Goodwill

During 1999 and 2000, Actel completed the acquisitions of AutoGate Logic, Prosys, and GateField, resulting in a significant amount of goodwill and identified intangible assets. Goodwill is recorded when the consideration paid in an acquisition exceeds the fair value of the net tangible and intangible assets acquired. At December 31, 2001, Actel had $37.2 million of remaining net book value assigned to goodwill from those acquisitions and $10.0 million of remaining net book value assigned to identified intangible assets such as patents and completed technology. In accordance with SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," reviews have been regularly performed to determine whether facts or circumstances exist indicating that the assets are impaired. In assessing the recoverability of goodwill and other intangibles, Actel must make assumptions regarding estimated future cash flows and other factors to determine the fair value of the respective assets, including industry growth rates, estimated gross margin levels, and estimates of the market share Actel will achieve. If these estimates or their related assumptions change in the future, it could result in lower estimated future cash flows that would not support the current carrying values of these assets, which would require Actel to record impairment charges for these assets. *During the year ended December 31, 2001, Actel did not record any impairment losses related to goodwill or other intangible assets.* Beginning in 2002, Actel will adopt SFAS No. 142, "Goodwill and Other Intangible Assets," which requires Actel to analyze goodwill for impairment during the first six months of fiscal 2002 and on a periodic basis thereafter.

Income Taxes

Actel accounts for income taxes in accordance with SFAS No. 109, "Accounting for Income Taxes," which requires that deferred tax assets and liabilities be recognized using enacted tax rates for the effect of temporary differences between the book and tax bases of recorded assets and liabilities. SFAS No. 109 also requires that deferred tax assets be reduced by a valuation allowance if it is more likely than not that some portion or all of the deferred tax asset will not be realized. Actel evaluates annually the realizability of its deferred tax assets by assessing its valuation allowance and by adjusting the amount of such allowance, if necessary. The factors used to assess the likelihood of realization are Actel's forecast of future taxable income and available tax planning strategies that could be implemented to realize the net deferred tax assets.

At December 31, 2001, Actel had deferred tax assets in excess of deferred tax liabilities of $63.0 million. *For the reasons cited above, at December 31, 2001, management determined that it is more likely than not that $35.0 million of such assets will be realized, resulting in a valuation allowance of $28.0 million.* Failure to achieve forecasted taxable income might affect the realization of such net deferred tax assets. Factors that may affect Actel's ability to achieve sufficient forecasted taxable income include, but are not limited to, increased competition, a decline in sales or margins, loss of market share, delays in product availability, and technological obsolescence.

Legal Matters

As is typical in the semiconductor industry, Actel has been and expects to be notified from time to time of claims that it may be infringing patents owned by others. During 2001, Actel held discussions regarding potential patent infringement issues with several third parties, some of which have significantly greater financial and intellectual property resources than Actel. When probable and reasonably estimable, Actel has made provision for the estimated settlement costs of claims for alleged infringement. The provision is based on an estimated royalty rate applied to shipments made in the periods and to or from the geographic areas under dispute. In the absence of facts or circumstances unique to a particular dispute, the royalty rate is estimated based on Actel's understanding of royalty rates other technology companies typically agree to pay in similar types of disputes. As it has in the past, Actel may obtain licenses under patents that it is alleged to infringe. While Actel believes that reasonable resolution will occur, there can be no assurance that these claims will be resolved or that the resolution of these claims will not have a materially adverse effect on Actel's business, financial condition, or results of operations. In addition, Actel's evaluation of the impact of these pending disputes could change based upon new information learned by Actel. *Subject to the foregoing, Actel does not believe that any pending patent dispute is likely to have a materially adverse effect on Actel's business, financial condition, or results of operations.*

Revenues

A significant portion of Actel's revenue is derived from shipments to distributors. Shipments to distributors are made under agreements allowing certain rights of return and price adjustments on unsold merchandise. For that reason, Actel defers recognition of revenues and related cost of revenues on sales of products to distributors until such products are sold by the distributor and title transfers to the end user.

Actel records a provision for price adjustments on unsold merchandise shipped to distributors in the same period as the related revenues are recorded. If market conditions were to decline, Actel may need to take action with its distributors to ensure the sell-through of inventory already in the channel. These actions during a market downturn could result in incrementally greater reductions to net revenues than otherwise would be expected. Actel also records a provision for estimated sales returns on products shipped to end customers in the same period as the related revenues are recorded. The provision for sales returns is based on historical sales returns, analysis of credit memo data, and other known factors. If the historical data Actel uses to calculate these estimates does not properly reflect future returns, net revenues could be materially different.

Accounts Receivable

As of December 31, 2001, Actel had an accounts receivable balance of $16.8 million, net of an allowance for doubtful accounts of $1.3 million. If sales levels were to increase, it is likely that the level of receivables would also increase. In the event that customers delay their payments to Actel, the levels of accounts receivable would also increase. Actel maintains allowances for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. The allowance for doubtful accounts is based on past payment history with the customer, analysis of the customer's current financial condition, outstanding invoices older than 90 days, and other known factors. If the financial condition of Actel's customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

Market Risk

As of December 31, 2001, Actel's investment portfolio consisted primarily of corporate bonds, floating rate notes, and federal and municipal obligations. The principal objectives of Actel's investment activities are to preserve principal, meet liquidity needs, and maximize yields. To meet these objectives, Actel invests excess liquidity only in high credit quality debt securities with average maturities of less than two years. Actel also limits the percentage of total investments that may be invested in any one issuer. Corporate investments as a group are also limited to a maximum percentage of Actel's investment portfolio.

Actel's debt security investments are subject to interest rate risk. An increase in interest rates could subject Actel to a decline in the market value of its investments. These risks are mitigated by the ability of Actel to hold these investments to maturity. A hypothetical 100 basis point increase in interest rates would result in a reduction of approximately $1.3 million in the fair value of Actel's available-for-sale debt securities held at December 31, 2001.

Actel's marketable equity securities are subject to equity price risk. At December 31, 2001, there is an unrealized loss of $1.0 million on Actel's marketable equity securities. A decrease in equity prices of 10% would subject Actel to an additional decline in the market value of its marketable equity securities of $0.5 million from the fair value at December 31, 2001.

The potential changes noted above are based upon sensitivity analyses performed on Actel's financial position and expected operating levels at December 31, 2001. Actual results may differ materially.

Other Risks

Actel's operating results are subject to general economic conditions and a variety of risks characteristic of the semiconductor industry (including booking and shipment uncertainties, wafer supply fluctuations, and price erosion) or specific to Actel, any of which could cause Actel's operating results to differ materially from past results. See the Risk Factors set forth at the end of Part I of Actel's Annual Report on Form 10-K for the fiscal year ended January 6, 2002.

Quarterly Information

The table on the next page presents certain unaudited quarterly results for each of the eight quarters in the period ended December 31, 2001. In the opinion of management, this information has been presented on the same basis as the audited consolidated financial statements appearing elsewhere in this Annual Report and all necessary adjustments (consisting only of normal recurring accruals) have been included in the amounts stated below to present fairly the unaudited quarterly results when read in conjunction with the audited consolidated financial statements of Actel and notes thereto. However, these quarterly operating results are not indicative of the results for any future period.

	Three Months Ended							
	Dec. 31, 2001	**Sep. 30, 2001**	**July 1, 2001**	**Apr. 1, 2001**	**Dec. 31, 2000**	**Oct. 1, 2000**	**July 2, 2000**	**Apr. 2, 2000**
	(unaudited, in thousands except per share amounts)							
Statements of Operations Data:								
Net revenues	**$ 32,059**	**$ 32,006**	**$ 36,460**	**$ 45,034**	$ 60,129	$ 60,080	$ 55,544	$ 50,666
Gross profit	**19,567**	**16,734**	**18,888**	**28,160**	38,060	37,626	34,595	31,458
Income (loss) from operations	**(4,086)**	**(6,188)**	**(4,233)**	**3,463**	7,497	13,648	6,778	10,555
Net income (loss)	**$ (2,531)**	**$ (2,334)**	**$ (2,631)**	**$ 2,795**	$ 3,455	$ 9,779	$ 20,112	$ 8,099
Net income (loss) per share:								
Basic	**$ (0.11)**	**$ (0.10)**	**$ (0.11)**	**$ 0.12**	$ 0.14	$ 0.41	$ 0.86	$ 0.36
Diluted*	**$ (0.11)**	**$ (0.10)**	**$ (0.11)**	**$ 0.11**	$ 0.13	$ 0.36	$ 0.77	$ 0.32
Shares used in computing net income (loss) per share:								
Basic	**23,987**	**23,852**	**23,642**	**23,472**	23,890	23,869	23,263	22,767
Diluted*	**23,987**	**23,852**	**23,642**	**25,126**	26,107	26,999	26,186	25,467

* For the second through fourth quarters of 2001, Actel incurred quarterly net losses and the inclusion of stock options in the shares used for computing diluted earnings per share would have been anti-dilutive and reduced the loss per share. Accordingly, all common stock equivalents (such as stock options) have been excluded from the shares used to calculate diluted earnings per share for these respective periods.

	Three Months Ended							
	Dec. 31, 2001	**Sep. 30, 2001**	**July 1, 2001**	**Apr. 1, 2001**	**Dec. 31, 2000**	**Oct. 1, 2000**	**July 2, 2000**	**Apr. 2, 2000**
As a Percentage of Net Revenues:								
Net revenues	**100.0%**	**100.0%**	**100.0%**	**100.0%**	100.0%	100.0%	100.0%	100.0%
Gross profit	**61.0**	**52.3**	**51.8**	**62.5**	63.3	62.6	62.3	62.1
Income (loss) from operations	**(12.7)**	**(19.3)**	**(11.6)**	**7.7**	12.5	22.7	12.2	20.8
Net income (loss)	**(7.9)**	**(7.3)**	**(7.2)**	**6.2**	5.7	16.3	36.2	16.0

ACTEL CORPORATION
CONSOLIDATED BALANCE SHEETS
(in thousands, except share and per share amounts)

	December 31, 2001	December 31, 2000
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 7,912**	$ 9,266
Short-term investments	**120,923**	131,544
Accounts receivable, net	**16,759**	29,256
Inventories, net	**36,338**	25,503
Deferred income taxes	**26,096**	26,118
Prepaid expenses and other current assets	**4,251**	5,098
Total current assets	**212,279**	226,785
Property and equipment, net	**14,665**	12,137
Goodwill, net	**37,180**	46,820
Other assets, net	**25,958**	26,692
	$ 290,082	$ 312,434
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	**$ 10,129**	$ 14,921
Accrued salaries and employee benefits	**7,189**	17,200
Other accrued liabilities	**6,332**	5,354
Deferred income	**26,758**	44,858
Total current liabilities	**50,408**	82,333
Deferred compensation plan liability	**1,994**	—
Total liabilities	**52,402**	82,333
Commitments and contingencies		
Shareholders' equity:		
Preferred stock, $.001 par value; 5,000,000 shares authorized; 1,000,000 issue and converted to common stock, and none outstanding	—	—
Common stock, $.001 par value; 55,000,000 shares authorized; 24,055,949 and 23,331,162 shares issued and outstanding at December 31, 2001 and 2000, respectively	**24**	23
Additional paid-in capital	**162,324**	150,709
Retained earnings	**75,207**	79,908
Note receivable from officer	**(368)**	(368)
Unearned compensation cost	**(314)**	(922)
Accumulated other comprehensive income	**807**	751
Total shareholders' equity	**237,680**	230,101
	$ 290,082	$ 312,434

See Notes to Consolidated Financial Statements.

ACTEL CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share amounts)

	Years Ended December 31,		
	2001	**2000**	**1999**
Net revenues	**$ 145,559**	$ 226,419	$ 171,661
Costs and expenses:			
Cost of revenues	**62,210**	84,680	66,387
Research and development	**38,172**	36,599	32,338
Selling, general, and administrative	**41,464**	47,960	45,903
Amortization of goodwill and other acquisition-related intangibles	**14,757**	8,056	2,226
Restructuring charge	**—**	—	1,963
Purchased in-process research and development	**—**	10,646	600
Total costs and expenses	**156,603**	187,941	149,417
Income (loss) from operations	**(11,044)**	38,478	22,244
Interest income and other, net of expense	**7,280**	8,310	3,642
Gain on the sale of Chartered common stock	**—**	28,329	—
Income (loss) before tax provision and equity interest in net (loss) of equity method investee	**(3,764)**	75,117	25,886
Equity interest in net (loss) of equity method investee	**—**	(2,445)	(193)
Tax provision	**937**	31,227	8,055
Net income (loss)	**$ (4,701)**	$ 41,445	$ 17,638
Net income (loss) per share:			
Basic	**$ (0.20)**	$ 1.77	$ 0.81
Diluted	**$ (0.20)**	$ 1.58	$ 0.76
Shares used in computing net income (loss) per share:			
Basic	**23,743**	23,447	21,664
Diluted	**23,743**	26,233	23,058

See Notes to Consolidated Financial Statements.

ACTEL CORPORATION
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY AND OTHER COMPREHENSIVE INCOME/(LOSS)
(in thousands, except share amounts)

	Common Stock	Additional Paid-In Capital	Retained Earnings	Notes Receivable From Officer	Unearned Compensation Cost	Accumulated Other Comprehensive Income	Total Share-holders' Equity
Balance at December 31, 1998	**$ 21**	**$ 92,092**	**$ 34,763**	**$ —**	**$ —**	**$ 178**	**$ 127,054**
Net income	—	—	17,638	—	—	—	17,638
Other comprehensive income:							
Change in unrealized gain on investments	—	—	—	—	—	15,883	15,883
Comprehensive income							33,521
Issuance of 954,569 shares of common stock under employee stock plans	1	9,003	—	—	—	—	9,004
Issuance of 285,943 shares of common stock for purchase of AutoGate Logic	—	6,858	—	—	—	—	6,858
Tax benefit from exercise of stock options	—	2,193	—	—	—	—	2,193
Balance at December 31, 1999	**$ 22**	**$ 110,146**	**$ 52,401**	**$ —**	**$ —**	**$ 16,061**	**$ 178,630**
Net income	—	—	41,445	—	—	—	41,445
Other comprehensive income:							
Change in unrealized gain on investments	—	—	—	—	—	(15,310)	(15,310)
Comprehensive income							26,135
Issuance of 1,574,334 shares of common stock under employee stock plans	2	16,363	—	(368)	—	—	15,997
Repurchase of common stock	(1)	(7,077)	(13,938)	—	—	—	(21,016)
Issuance of 220,518 shares of common stock for purchase of Prosys	—	7,525	—	—	—	—	7,525
Assumption of stock options in connection with acquisitions of GateField and Prosys including unearned compensation expense for those options	—	13,665	—	—	(922)	—	12,743
Tax benefit from exercise of stock options	—	10,087	—	—	—	—	10,087
Balance at December 31, 2000	**$ 23**	**$ 150,709**	**$ 79,908**	**$ (368)**	**$ (922)**	**$ 751**	**$ 230,101**

See Notes to Consolidated Financial Statements.

ACTEL CORPORATION
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY AND OTHER COMPREHENSIVE INCOME/(LOSS) (Continued)
(in thousands, except share amounts)

	Common Stock	Additional Paid-In Capital	Retained Earnings	Notes Receivable From Officer	Unearned Compensation Cost	Accumulated Other Comprehensive Income	Total Share-holders' Equity
Balance at December 31, 2000	**$ 23**	**$ 150,709**	**$ 79,908**	**$ (368)**	**$ (922)**	**$ 751**	**$ 230,101**
Net loss	—	—	(4,701)	—	—	—	(4,701)
Other comprehensive income/(loss):							
Change in unrealized gain on investments	—	—	—	—	—	56	56
Comprehensive income/(loss)							(4,645)
Issuance of 670,499 shares of common stock under employee stock plans, net of repurchases	1	7,675	—	—	—	—	7,676
Issuance of 54,290 shares to Prosys security holders in connection with achievement of technological milestones	—	1,132	—	—	—	—	1,132
Issuance of stock options to consultant	—	116	—	—	—	—	116
Amortization of unearned compensation cost	—	—	—	—	225	—	225
Purchase price adjustment related to GateField employees' unvested stock options originally assumed in connection with the GateField acquisition	—	—	—	—	383	—	383
Tax benefit from exercise of stock options	—	2,692	—	—	—	—	2,692
Balance at December 31, 2001	**$ 24**	**$ 162,324**	**$ 75,207**	**$ (368)**	**$ (314)**	**$ 807**	**$ 237,680**

See Notes to Consolidated Financial Statements.

ACTEL CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Years Ended December 31,		
	2001	**2000**	**1999**
Operating activities:			
Net income (loss)	**$ (4,701)**	$ 41,445	$ 17,638
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	**21,755**	15,463	10,294
Stock compensation cost recognized	**341**	—	—
Non-cash portion of restructuring and other charges	—	—	2,695
Gain on sale of Chartered stock	—	(28,329)	—
Purchased in-process research and development	—	10,646	600
Equity interest in net loss of equity method investee	—	2,445	193
Loss on disposal of fixed assets	—	—	136
Changes in operating assets and liabilities:			
Accounts receivable	**12,497**	(6,609)	(1,933)
Inventories	**(10,835)**	(179)	345
Deferred income taxes	**(47)**	(384)	(3,775)
Prepaid expenses and other current assets	**237**	(5,466)	429
Accounts payable, accrued salaries and employee benefits, and other accrued liabilities	**(14,109)**	6,573	9,769
Tax benefits from exercise of stock options	**2,692**	10,087	2,193
Deferred income	**(18,100)**	4,464	7,925
Net cash provided by (used in) operating activities	**(10,270)**	50,156	46,509
Investing activities:			
Purchases of property and equipment	**(9,526)**	(6,173)	(6,407)
Purchases of available-for-sale securities	**(135,016)**	(396,325)	(178,616)
Sales and maturities of available for sale securities	**145,878**	367,835	132,342
Cash paid in business acquisitions	—	(30,853)	281
Issuance of notes receivable from GateField prior to acquisition	—	(7,000)	(8,000)
Cash received from sale of Chartered stock	—	39,009	—
Changes in other long term assets	**(96)**	(7,303)	(1,928)
Net cash provided by (used in) investing activities	**1,240**	(40,810)	(62,328)
Financing activities:			
Common stock issuance under employee stock plans	**7,676**	15,997	6,811
Repurchase of common stock	—	(21,016)	—
Net cash provided by (used in) financing activities	**7,676**	(5,019)	6,811
Net increase (decrease) in cash and cash equivalents	**(1,354)**	4,327	(9,008)
Cash and cash equivalents, beginning of year	**9,266**	4,939	13,947
Cash and cash equivalents, end of year	**$ 7,912**	$ 9,266	$ 4,939

See Notes to Consolidated Financial Statements.

ACTEL CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)
(in thousands)

	Years Ended December 31,		
	2001	**2000**	**1999**
Supplemental disclosures of cash flow information and non-cash investing and financing activities:			
Cash paid during the year for taxes	**$ 473**	$ 32,989	$ 10,195
Issuance of common stock for acquisitions	**1,132**	17,389	6,858
Receipt of note receivable from officer	**—**	368	—

See Notes to Consolidated Financial Statements.

1. Organization and Summary of Significant Accounting Policies

Actel Corporation (Actel) was incorporated under the laws of California on October 16, 1985. Actel designs, develops, and markets field programmable gate arrays (FPGAs) and associated development tools, intellectual property (IP) cores, and services. Net revenues from the sale of FPGAs accounted for 96% of Actel's net revenues for 2001, 2000, and 1999. The Protocol Design Services organization, which Actel acquired from GateField Corporation (GateField) in the third quarter of 1998, accounted for 1% of Actel's net revenues for 2001, compared with 2% for 2000 and 1999. Royalties and sales of development tools accounted for 3% of net revenues for 2001, compared with 2% for 2000 and 1999.

FPGAs are logic integrated circuits that adapt the processing and memory capabilities of electronic systems to specific applications. FPGAs are used by designers of communications, computer, consumer, industrial, military and aerospace, and other electronic systems to differentiate their products and get them to market faster. Actel is the leading supplier of FPGAs based on flash and antifuse technologies. See Note 12 for information on Actel's sales by geographic area.

Advertising and Promotion Costs

Actel's policy is to expense advertising and promotion costs as they are incurred. Actel's advertising and promotion expenses were approximately $3.8 million, $3.9 million, and $3.3 million for 2001, 2000, and 1999 respectively.

Basis of Presentation

The consolidated financial statements include the accounts of Actel and its wholly owned subsidiaries. Actel uses the U.S. Dollar as the functional currency in its foreign operations. All significant intercompany accounts and transactions have been eliminated in consolidation.

Actel's fiscal year ends on the first Sunday after December 30. Fiscal 2001, 2000, and 1999 ended on January 6, 2002, December 31, 2000, and January 2, 2000, respectively. Accordingly, fiscal 2001 was a fifty-three week fiscal year, rather than a normal fifty-two week fiscal year. For ease of presentation, December 31 has been indicated as the fiscal year end for all years. Certain prior year balances have been reclassified to conform to current year presentation.

Cash Equivalents and Investments

For financial statement purposes, Actel considers all highly liquid debt instruments with insignificant interest rate risk and a maturity of three months or less when purchased to be cash equivalents. Cash equivalents consist primarily of cash deposits in money market funds that are available for withdrawal without restriction. Short-term investments consist principally of federal, state, and local municipal obligations. See Note 3 for further information regarding short-term investments.

Actel accounts for its investments in accordance with the provisions of Statement of Financial Accounting Standards (SFAS) No. 115, "Accounting for Certain Investments in Debt and Equity Securities." Management determines the appropriate classification of debt securities at the time of purchase and re-evaluates such designation as of each balance sheet date. At December 31, 2001, all debt securities are designated as available-for-sale. Actel also makes equity investments for the promotion of business and strategic objectives. The marketable portion of these strategic investments is included in short-term investments at their market value on December 31, 2001, of $4.6 million and designated as available-for-sale. Non-marketable equity investments with a cost of $2.2 million are included in other assets and are valued at the lower of cost or market. See Note 3 for further information regarding investments.

Available-for-sale securities are carried at fair value, with the unrealized gains and losses reported as a component of comprehensive income/(loss) in shareholders' equity. The amortized cost of debt securities in this category is adjusted for amortization of premiums and accretion of discounts to maturity. Such amortization is included in interest and other income. Realized gains and losses and declines in value judged to be other than temporary on available-for-sale securities are included in interest income and other. The cost of securities sold is based on the specific identification method. Interest and dividends on securities classified as available-for-sale are included in interest income and other.

Actel maintains trading assets to generate returns that offset changes in liabilities related to Actel's deferred compensation plan. The trading assets consist of insurance contracts and Actel common stock and are stated at fair value. Both realized and unrealized gains and losses are included in interest income and other, net, and generally offset the change in the deferred compensation liability, which is also included in interest income and other, net. Net gains (losses) on the trading asset portfolio were not significant for 2001. The deferred compensation assets and liabilities were $2.1 million and $2.0 million, respectively, at December 31, 2001.

Actel monitors its equity investments for impairment on a periodic basis. In the event that the carrying value of the equity investment exceeds its fair value, and the decline in value is determined to be other than temporary, the carrying value is reduced to its current fair value.

At December 31, 2001, Actel held an investment in a publicly-traded equity security with a market value of $4.6 million included in short-term investments and an unrealized loss of $1.0 million included in other comprehensive income/(loss). In accordance with SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities," if the decline in value below cost is determined to be other than temporary, the unrealized losses will be realized as expense on the income statement in the period when that determination is made. Actel determines a decline in market value to be other than temporary when, in the absence of other mitigating factors, a stock has traded below cost for a consecutive six-month period. If this investment continues to trade below cost for more than six months, and other mitigating factors such as general economic and industry specific trends were to adversely change, this investment will be evaluated for impairment and written down to a balance equal to the fair value at the time of impairment, with the amount of the write-down realized as expense on the income statement. Based on management's assessment of industry trends, the volatility and trading volumes of this equity security, as well as the fact that the investment has traded at below original cost for less than

six consecutive months, management concluded that the decline in value was temporary and no impairment existed at December 31, 2001.

At December 31, 2001, Actel held an equity investment that represented a 14% equity interest in a company located in the United Kingdom. This investment is carried at its cost of $2.2 million on the balance sheet as part of other assets. As this equity security is not publicly traded, determining the fair value of this investment is judgmental in nature and dependant on management's assessment of the performance of the company, which includes, among other things, successfully developing and introducing a new technology into the market as well as obtaining additional funding to finance these activities until the company can generate positive cash flows from the sale of the new products. This investment is subject to a multitude of risks, including but not limited to the risks that the company may not be successful in developing the planned technology, that the company may not be able to secure necessary funding to continue operations, that a suitable market for such technology may not develop, or that a competitor may develop a superior product. If any of these risks materialize, or other indicators of possible impairment arise, the investment will be evaluated for impairment and written down to a balance equal to the fair value at the time of impairment, with the amount of the write-down realized as an expense on the income statement. Based on the progress made toward technological goals and the expectation of future marketability of the technology under development, Actel concluded no impairment of this investment existed at December 31, 2001.

Concentration of Credit Risk

Financial instruments that potentially subject Actel to concentrations of credit risk consist principally of cash investments and trade receivables. Actel limits its exposure to credit risk by investing excess liquidity only in securities of A, A1, or P1 grade. Actel is exposed to credit risks in the event of default by the financial institutions or issuers of investments to the extent of amounts recorded on the balance sheet.

Actel sells its products to customers in diversified industries. Actel is exposed to credit risks in the event of non-payment by customers to the extent of amounts recorded on the balance sheet. Actel limits its exposure to credit risk by performing ongoing credit evaluations of its customers' financial condition but generally requires no collateral. Actel is exposed to credit risks in the event of insolvency by its customers and limits such exposure to accounting losses by limiting the amount of credit extended whenever deemed necessary. Three of Actel's distributors accounted for approximately 52% of Actel's net revenues for 2001. The same three distributors accounted in the aggregate for approximately 45% of Actel's net revenues for 2000 and 41% for 1999. During 2001, Actel consolidated its distribution channel by terminating one of the distributors. One of Actel's direct customers (Nortel Networks) accounted for 2% of Actel's net revenues for 2001, compared with 11% and 9% of net revenues for 2000 and 1999, respectively. The loss of any one of these customers could have a materially adverse effect on Actel's results of operations and financial position. See Note 12 for further information regarding these customers.

As of December 31, 2001, Actel had an accounts receivable balance of $16.8 million, net of an allowance for doubtful accounts of $1.3 million. If sales levels were to increase, it is likely that the level

of receivables would also increase. In the event that customers delay their payments to Actel, the levels of accounts receivable would also increase. Actel maintains allowances for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. The allowance for doubtful accounts is based on past payment history with the customer, analysis of the customer's current financial condition, outstanding invoices older than 90 days, and other known factors. If the financial condition of Actel's customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

Fair Value of Financial Instruments

The following methods and assumptions were used by Actel in estimating its fair value disclosures for financial instruments:

Accounts Payable. The carrying amount reported in the balance sheets for accounts payable approximates fair value.

Cash and Cash Equivalents. The carrying amounts reported in the balance sheets for cash and cash equivalents approximate fair value.

Foreign Currency Exchange Contracts. The fair value of Actel's foreign currency exchange forward contracts are estimated based on quoted market prices of comparable contracts.

Insurance Contracts. The fair value of Actel's insurance contracts (entered into in connection with Actel's deferred compensation plan) is based upon cash surrender value.

Investment Securities. The fair values for marketable debt and equity securities are based on quoted market prices. Strategic equity investments in non-public companies with no readily available market value are carried on the balance sheet at cost as adjusted for potential impairment. If reductions in the market value of marketable equity securities to an amount that is below cost are deemed by management to be other than temporary, the reduction in market value will be realized, with the resulting loss in market value reflected on the income statement.

Goodwill and other Acquisition-Related Intangibles

Goodwill is recorded when the consideration paid in an acquisition exceeds the fair value of the net tangible and intangible assets acquired. See Note 2 for further information on goodwill values. Through 2001, goodwill and other acquisition-related intangibles have been amortized on a straight-line basis over their useful lives.

During 1999 and 2000, Actel completed the acquisitions of AutoGate Logic, Prosys, and GateField, resulting in a significant amount of goodwill and identified intangible assets. Goodwill is recorded when the consideration paid in an acquisition exceeds the fair value of the net tangible and intangible assets acquired. At December 31, 2001, Actel had $37.2 million of remaining net book value assigned to goodwill from those acquisitions and $10.0 million of remaining net book value assigned to

identified intangible assets such as patents and completed technology. In accordance with Statement of Financial Accounting Standards (SFAS) No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," reviews have been regularly performed to determine whether facts or circumstances exist indicating that the assets are impaired. Actel recognizes impairment losses on long-lived assets when indicators of impairment are present and the undiscounted cash flows estimated to be generated by those assets are less than the assets' carrying amounts. The impairment loss is measured by comparing the fair value of the asset to its carrying amount. Fair value is estimated based on discounted future cash flows. In assessing the recoverability of goodwill and other intangibles, Actel must make assumptions regarding estimated future cash flows and other factors to determine the fair value of the respective assets, including industry growth rates, estimated gross margin levels, and estimates of the market share Actel will achieve. If these estimates or their related assumptions change in the future, it could result in lower estimated future cash flows that would not support the current carrying values of these assets, which would require Actel to record impairment charges for these assets. During the year ended December 31, 2001, Actel did not record any impairment losses related to goodwill or other intangible assets. Beginning in 2002, Actel will adopt SFAS No. 142, "Goodwill and Other Intangible Assets," which requires Actel to analyze goodwill for impairment during the first six months of fiscal 2002 and on a periodic basis thereafter.

Impact of Recently Issued Accounting Standards

In June 2001, the FASB issued SFAS No. 141, "Business Combinations," and SFAS No. 142, "Goodwill and Other Intangible Assets." These standards become effective for fiscal years beginning after December 15, 2001. Beginning in Actel's 2002 fiscal year, goodwill will no longer be amortized but will be subject to annual impairment tests and written down only when impaired. All other intangible assets with a finite useful life will continue to be amortized over their estimated useful lives. As of December 31, 2001, unamortized goodwill was $37.2 million. The amortization expense related to goodwill for the year ended December 31, 2001, was $11.7 million. For 2002, goodwill will not be amortized, resulting in the elimination of approximately $11.8 million of amortization expense that otherwise would have been recognized as expense. Other intangible assets, with a net book value of $10.0 million at December 31, 2001, will continue to be amortized over their estimated useful lives. The amortization expense associated with other intangible assets amounted to $3.1 million in 2001. Actel will carry out an impairment review of goodwill and other intangible assets during the first half of 2002, as required by SFAS 142. Accordingly, management is still evaluating the impact that the adoption of SFAS 142 will have on Actel's financial position, operating results, or cash flows.

In October 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." This standard supersedes SFAS 121. Although retaining many of the fundamental recognition and measurement provisions of SFAS 121, the new rules significantly change the criteria that must be met to classify an asset as held-for-sale. The standard also supersedes certain provisions of Accounting Principles Board Opinion (APB) No. 30, "Reporting the Results of Operations — Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions." SFAS 144 will require expected future operating losses from discontinued operations to be displayed in discontinued operations in the period(s) in which the losses are incurred rather than as of the measurement date, as presently required. SFAS 144 becomes effective for

fiscal years beginning after December 15, 2001. Actel will adopt SFAS 144 in the first quarter of 2002 and does not expect the adoption of SFAS 144 to have a material impact on Actel's financial position, operating results, or cash flows.

Income Taxes

Actel accounts for income taxes in accordance with SFAS No. 109, "Accounting for Income Taxes," which requires that deferred tax assets and liabilities be recognized using enacted tax rates for the effect of temporary differences between the book and tax bases of recorded assets and liabilities. Under SFAS No. 109, the liability method is used in accounting for income taxes. Deferred tax assets and liabilities are determined based on the differences between financial reporting and the tax basis of assets and liabilities, and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. SFAS No. 109 also requires that deferred tax assets be reduced by a valuation allowance if it is more likely than not that some portion or all of the deferred tax asset will not be realized. Actel evaluates annually the realizability of its deferred tax assets by assessing its valuation allowance and by adjusting the amount of such allowance, if necessary. The factors used to assess the likelihood of realization are Actel's forecast of future taxable income and available tax planning strategies that could be implemented to realize the net deferred tax assets.

At December 31, 2001, Actel had deferred tax assets in excess of deferred tax liabilities of $63.0 million. For the reasons cited above, at December 31, 2001, management determined that it is more likely than not that $35.0 million of such assets will be realized, resulting in a valuation allowance of $28.0 million. Failure to achieve forecasted taxable income might affect the realization of such net deferred tax assets. Factors that may affect Actel's ability to achieve sufficient forecasted taxable income include, but are not limited to, increased competition, a decline in sales or margins, loss of market share, delays in product availability, and technological obsolescence.

Inventories

As of December 31, 2001, Actel had an inventory balance of $36.3 million, stated at the lower of cost (first-in, first-out) or market (net realizable value). Management believes that a certain level of inventory must be carried to maintain an adequate supply of product for customers. This inventory level may vary based upon either orders received from customers or internal forecasts of demand for these products. Other considerations in determining inventory levels include the stage of products in the product life cycle, design win activity, manufacturing lead times, customer demands, strategic relationships with foundries, and competitive situations in the marketplace. Should any of these factors have a result other than anticipated, inventory levels may be adversely and materially affected.

Actel writes down its inventory for estimated obsolescence or unmarketable inventory equal to the difference between the cost of inventory and the estimated realizable value based upon assumptions about future demand and market conditions. To address this difficult, subjective, and complex area of judgment, Actel applies a methodology that includes assumptions and estimates to arrive at the net realizable value. First, Actel identifies any inventory that has been previously reserved in prior periods. This inventory remains reserved until sold, destroyed, or otherwise dispositioned. Second, Actel's quality

assurance personnel examine inventory line items that may have some form of obsolescence due to non-conformance with electrical and mechanical standards. Third, Actel assesses the inventory not otherwise identified to be reserved against product history and forecasted demand, typically six months. Finally, the result of this methodology is analyzed by management in light of the product life cycle, design win activity, and competitive situations in the marketplace to derive an outlook for consumption of the inventory and the appropriateness of the resulting inventory levels. If actual future demand or market conditions are less favorable than those projected by management, additional inventory write-downs may be required. See Note 2 for further information on Inventory amounts.

Legal Matters

As is typical in the semiconductor industry, Actel has been and expects to be notified from time to time of claims that it may be infringing patents owned by others. During 2001, Actel held discussions regarding potential patent infringement issues with several third parties, some of which have significantly greater financial and intellectual property resources than Actel. When probable and reasonably estimable, Actel has made provision for the estimated settlement costs of claims for alleged infringement. The provision is based on an estimated royalty rate applied to shipments made in the periods and to or from the geographic areas under dispute. In the absence of facts or circumstances unique to a particular dispute, the royalty rate is estimated based on Actel's understanding of royalty rates other technology companies typically agree to pay in similar types of disputes. As it has in the past, Actel may obtain licenses under patents that it is alleged to infringe. While Actel believes that reasonable resolution will occur, there can be no assurance that these claims will be resolved or that the resolution of these claims will not have a materially adverse effect on Actel's business, financial condition, or results of operations. In addition, Actel's evaluation of the impact of these pending disputes could change based upon new information learned by Actel. Subject to the foregoing, Actel does not believe that any pending patent dispute is likely to have a materially adverse effect on Actel's business, financial condition, or results of operations.

Off-Balance-Sheet Risk

On January 1, 2001, Actel adopted SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS 133 requires that all derivatives be recognized on the balance sheet at fair market value. Derivatives that are not hedges must be adjusted to fair value through earnings. If the derivative is a hedge, changes in the fair value of the derivative are either offset against the change in the fair value of the hedged item through earnings or, depending on the nature of the hedge, recognized in other comprehensive income until the hedged item is recognized in earnings. The ineffective portion of a derivative's change in fair value is immediately recognized in earnings. The adoption of SFAS 133 did not have a material impact on Actel's consolidated financial position or operating results.

Actel purchases a portion of its wafers used in production from a Japanese supplier denominated in Japanese Yen. The amount of U.S. Dollars that are necessary to purchase wafers is subject to fluctuations in foreign currency exchange rates between the U.S. Dollar and Yen. Actel enters into foreign exchange forward contracts to reduce the variability in the amount of U.S. Dollars that will be required to settle forecasted wafer purchases denominated in Yen.

Actel's accounting policies for these forward contracts are based on Actel's designation of the Yen forward contracts as foreign currency cash flow hedges. The criteria Actel uses for designating an instrument as a hedge includes its effectiveness in exposure reduction and one-to-one matching of the derivative financial instrument with the underlying transaction being hedged. Hedge effectiveness is assessed by comparing the change in fair value of the forward contract with the change in fair value of the forecasted payments. Gains and losses on these contracts are recognized upon usage of the contracts and are included in cost of sales along with the offsetting gain or loss on the underlying transactions being hedged. If the criteria for designation of these instruments as hedging transactions are not met, then the instruments would be marked to market, with gains and losses recognized on the income statement in that period.

Actel limits the amount of forward foreign exchange contract to the amount sufficient to hedge forecasted Yen-based payments for a maximum of three months. Actel does not use forward foreign exchange contracts for speculative or trading purposes.

During fiscal 2001, 2000, and 1999, all foreign exchange contracts entered into by Actel met the criteria for designation as foreign currency cash flow hedges. Amounts recognized on the income statement for hedge ineffectiveness were not material in 2001, 2000, or 1999. At December 31, 2001 and 2000, Actel had no forward foreign exchange contracts outstanding.

Property and Equipment

Property and equipment are carried at cost less accumulated depreciation and amortization (see Note 2). Depreciation and amortization have been provided on a straight-line basis over the following estimated useful lives:

Equipment	2 to 5 years
Furniture and fixtures	3 to 5 years
Leasehold improvements	Estimated useful life or lease term, whichever is shorter

Revenue Recognition

In accordance with SAB No. 101, revenue is recognized when there is evidence of an arrangement, delivery has occurred or services have been completed, the price is fixed or determinable, and collectability is assured. Revenue from product shipped to end customers is recorded when risk of loss and title passes to the customer. Revenue related to products shipped subject to customers' evaluation is recognized upon final acceptance. Shipments to distributors are made under agreements allowing certain rights of return and price protection on unsold merchandise. For that reason, Actel defers recognition of revenues and related cost of revenues on sales of products to distributors until such products are sold by the distributor and title transfers to the end user. Royalty income is recognized upon notice to Actel of the sale by others of products subject to royalties. Revenues generated by the Protocol Design Services organization are recognized as the services are performed.

Actel records a provision for price adjustments on unsold merchandise shipped to distributors in the same period as the related revenues are recorded. If market conditions were to decline, Actel may need to take action with its distributors to ensure the sell-through of inventory already in the channel. These actions during a market downturn could result in incrementally greater reductions to net revenues than otherwise would be expected. Actel also records a provision for estimated sales returns on products shipped to end customers in the same period as the related revenues are recorded. The provision for sales returns is based on historical sales returns, analysis of credit memo data, and other known factors. If the historical data Actel uses to calculate these estimates does not properly reflect future returns, net revenues could be materially different.

Research and Development

Research and development expenditures are charged to expense as incurred. SFAS No. 86, "Accounting for the Costs of Computer Software to Be Sold, Leased or Otherwise Marketed," requires the capitalization of certain software development costs subsequent to the establishment of technological feasibility. Through December 31, 2001, software development has been completed concurrently with the establishment of technological feasibility and, as a result, Actel has charged all costs to research and development expense in the periods incurred.

Stock-Based Compensation

Actel accounts for stock-based awards to employees using the intrinsic value method in accordance with APB Opinion No. 25, "Accounting for Stock Issued to Employees" and Financial Standards Accounting Board (FASB) Interpretation (FIN) No. 44, "Accounting for Certain Transactions Involving Stock Compensation." Accordingly, no compensation cost has been recognized for its fixed-cost stock option plans or its stock purchase plan. In Note 9, Actel provides additional pro forma disclosures as required under SFAS No. 123, "Accounting for Stock Based Compensation." Actel accounts for equity compensation issued to non-employees in accordance with EITF 96-18, "Accounting for Equity Instruments that are Issued to Other than Employees for Acquiring, or in Conjunction with Selling, Goods or Services," and FASB Interpretation No. 44, "Accounting for Certain Transactions Involving Stock Compensation — an Interpretation of APB Opinion No. 25."

Use of Estimates

The preparation of the financial statements in conformity with accounting principals generally accepted in the United States requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues, and expenses and the related disclosure of contingent assets and liabilities. Actel bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results invariably differ from these estimates, and such differences could be material. In addition, if these estimates or their related assumptions change in the future, it could have a materially adverse effect on Actel's operating results.

2. Balance Sheet Detail

	December 31, 2001	December 31, 2000
	(in thousands)	
Accounts receivable:		
Trade accounts receivable	**$ 16,388**	$ 27,915
Interest receivable	**1,699**	2,411
Allowance for doubtful accounts	**(1,328)**	(1,070)
	$ 16,759	$ 29,256
Inventories:		
Purchased parts and raw materials	**$ 6,972**	$ 5,334
Work-in-process	**26,670**	11,443
Finished goods	**2,696**	8,726
	$ 36,338	$ 25,503
Property and equipment:		
Equipment	**$ 57,888**	$ 50,190
Furniture and fixtures	**2,431**	2,371
Leasehold improvements	**5,658**	5,593
	65,977	58,154
Accumulated depreciation and amortization	**(51,312)**	(46,017)
	$ 14,665	$ 12,137

Depreciation expense was approximately $7.0 million, $7.4 million, and $8.1 million for 2001, 2000, and 1999, respectively, and is included with amortization expense in the Consolidated Statement of Cash Flows.

	December 31,	
	2001	2000
	(in thousands)	
Goodwill:		
Goodwill	**$ 53,613**	$ 51,561
Less accumulated amortization	**(16,433)**	(4,741)
	$ 37,180	$ 46,820
Other Assets:		
Prepaid long-term license fees	**$ 1,999**	$ 2,500
Deferred compensation plan assets	**2,082**	—
AutoGate Logic identifiable intangible assets	**2,950**	2,950
Prosys identifiable intangible assets	**273**	273
GateField identifiable intangible assets	**9,505**	9,505
Acquired patents	**1,842**	1,692
Strategic equity investments	**2,198**	2,198
Non-current deferred tax asset (net of related deferred tax liability of $3,927 in 2001 and $5,067 in 2000)	**8,935**	8,441
Other	**776**	669
Accumulated amortization expenses	**(4,602)**	(1,536)
	$ 25,958	$ 26,692

Amortization expense for goodwill and other acquisition related intangibles was approximately $14.8 million, $8.1 million, and $2.2 million for 2001, 2000, and 1999, respectively. Amortization expense from goodwill acquired in connection with the GateField, Prosys, and AutoGate Logic acquisitions was $11.7 million in 2001 compared with $4.2 million in 2000. Amortization expense from other acquisition-related intangible assets was $3.1 million in 2001 compared with $1.5 million in 2000. Additional goodwill was recognized during 2001 in connection with consideration issued to Prosys security holders upon the achievement of certain technological milestones specified in the Prosys purchase agreement. See Note 5 for further discussion of intangible assets acquired in connection with the GateField, Prosys, and AutoGate Logic acquisitions. From the third quarter of 1999 and through November 15, 2000, Actel held certain investments in GateField that were accounted for under the equity method of accounting. Amortization expense related to equity accounting for those investments was $2.4 million in 2000. On November 15, 2000, Actel acquired GateField and accounted for the transaction as a purchase. As a result, these previous investments in GateField were eliminated from "Other Assets" and included in the purchase price.

3. Available-for-Sale Securities

The following is a summary of available-for-sale securities at December 31, 2001 and 2000:

The following is a summary of available-for-sale securities at December 31, 2001 and 2000:

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Values
		(in thousands)		
December 31, 2001				
Corporate bonds	$ 41,926	$ 1,085	$ (31)	42,980
Corporate preferred stock	1,900	—	—	1,900
U.S. government securities	16,098	400	(37)	16,461
Floating rate notes	9,400	—	—	9,400
Municipal obligations	45,628	976	(3)	46,601
Weekly floater	—	—	—	—
Total available-for-sale securities	114,952	2,461	(71)	117,342
Less amounts classified as cash equivalents	(1,008)	—	—	(1,008)
Total short-term available-for-sale debt securities	113,944	2,461	(71)	116,334
Short-term marketable strategic equity investment	5,634	—	(1,045)	4,589
Total available-for-sale securities	$ 119,578	$ 2,461	$ (1,116)	$ 120,923
December 31, 2000				
Corporate bonds	$ 54,139	$ 600	$ —	$ 54,739
U.S. government securities	18,160	210	—	18,370
Floating rate notes	10,600	—	—	10,600
Municipal obligations	44,156	215	(4)	44,367
Weekly floater	3,000	—	—	3,000
Total available-for-sale securities	130,055	1,025	(4)	131,076
Less amounts classified as cash equivalents	—	—	—	—
Total short-term available-for-sale debt securities	130,055	1,025	(4)	131,076
Short-term marketable strategic equity investments	385	83	—	468
Total available-for-sale securities	$ 130,440	$ 1,108	$ (4)	$ 131,544

Actel also makes private equity investments for the promotion of business and strategic objectives. Non-marketable private equity investments are included in "Other Assets" and are valued at a cost of $2.2 million. See Note 1 for discussion of Actel's policy on accounting for investments and the manner in which fair values were determined. See Note 10 for discussion of Other Comprehensive Income/(Loss).

The adjustments to net unrealized gains and (losses) on investments included as a separate component of shareholders' equity totaled approximately $0.1 million, ($15.3 million), and $15.9 million, net of taxes, for the years ended December 31, 2001, 2000, and 1999, respectively. The $15.3 million

adjustment during 2000 was due to the liquidation of Actel's investment in Chartered. Realized gains were $0.4 million and $28.3 million during 2001 and 2000, respectively. Realized gains and losses during 1999 were not material. The realized gain of $28.3 million during 2000 was from the sale of Actel's investment in Chartered.

The expected maturities of Actel's investments at December 31, 2001, are shown below. Expected maturities can differ from contractual maturities because the issuers of the securities may have the right to prepay obligations without prepayment penalties.

Available-for-sale debt securities (in thousands):

Due in less than one year	$ 43,343
Due in one to five years	59,581
Due in five to ten years	1,071
Due after ten years	12,339
	$ 116,334

A portion of Actel's securities represent investments in floating rate municipal bonds with contractual maturities greater than ten years. However, the interest rates on these debt securities generally reset every ninety days, at which time Actel has the option to sell the security or roll over the investment at the new interest rate. Since it is not Actel's intention to hold these securities until their contractual maturities, these amounts have been classified as short-term investments.

4. Gain on Sale of Chartered Stock

At December 31, 1999, Actel held an equity investment in Chartered Semiconductor Manufacturing Ltd. (Chartered), a semiconductor company located in Singapore that completed an initial public offering in the fourth quarter of 1999. Actel's investment in Chartered was less than 1% of the total equity of Chartered and was held as an available-for-sale investment. The Chartered investment was valued at its market value of $37.6 million at the end of 1999. During the second quarter of 2000, Actel sold all of its shares of Chartered common stock for a one-time gain of $28.3 million.

5. Business Acquisitions

GateField

During 1998, Actel entered into a product marketing rights agreement with GateField Corporation (GateField) and made investments in GateField common stock and GateField convertible preferred stock, which were valued at cost. During 1999, Actel made additional investments in GateField, which resulted in Actel accounting for its investments in GateField under the equity method, commencing July 1, 1999. From July 1, 1999 through December 31, 1999, the impact of this was a $1.1 million charge to Actel's pre-tax income ($0.9 million included in amortization of goodwill and $0.2 million included in equity interest in net losses of equity method investee).

On May 31, 2000, GateField and Actel announced the signing of a definitive agreement to merge. On November 15, 2000, the acquisition was completed and Actel paid cash consideration of $5.25 for each share of GateField common stock not already owned by Actel. From January 1, 2000, to November 15, 2000, Actel recorded charges of $4.8 million to pre-tax income under the equity method of accounting ($2.4 million included in amortization of goodwill and $2.4 million included in equity interest in net losses of equity method investee). GateField's results of operations are included in Actel's income statement for the period from November 15 to December 31, 2000, and succeeding years.

The GateField acquisition was accounted for using the purchase method of accounting and the total purchase price was approximately $45.7 million. Actel paid total cash consideration of $24.0 million, or $5.25 per share, for the 4.6 million shares of GateField Common Stock not already owned by Actel. The net book value of Actel investments in GateField at November 15, 2000, is also included in the purchase price. These investments included 1.6 million shares of GateField common stock that Actel already owned, which had a net book value of $5.4 million; outstanding notes receivable from GateField, which had a net book value of $6.5 million; and the capitalized value of Actel's product marketing agreement with GateField, which had a net book value of $6.0 million. Actel also incurred $0.1 million of acquisition expenses, including financial advisory and direct transaction costs, which are included as a component of the purchase price.

In accordance with FIN 44, all vested and unvested GateField employee stock options assumed by Actel are included in the purchase price for accounting purposes based on their fair value of $3.8 million as of the announcement date. The portion of the intrinsic value of the unvested options that will be deemed to be earned over the remaining vesting period (total value of $0.9 million) is allocated as part of the purchase price to unearned compensation and is being amortized to operating expenses over the remaining vesting period. The fair value of the options assumed was calculated based on the Black-Scholes option pricing model.

In accordance with the provisions of APB Opinion No. 16, "Business Combinations," all identifiable assets and liabilities were assigned a portion of the total consideration on the basis of their respective fair values as of November 15, 2000. The consideration was allocated, based on the valuation report of an independent valuation specialist, as follows (in thousands):

Net tangible assets (liabilities) of GateField	$ (1,083)
In-process research and development	5,088
Acquired work-force	475
Developed technology	5,808
Core Technology	2,896
Tradename	326
Patents	976
Goodwill	26,680
Unearned compensation costs	922
Net deferred tax asset	3,647
	$ 45,735

The purchase price allocation is preliminary and subject to change pending finalization of Actel's analysis regarding the realizability of the operating losses acquired in the GateField acquisition. A valuation allowance of $27.2 million was reflected in the purchase price allocation above due to the uncertainty surrounding the realizablity of these net operating loss carryforwards. Upon completion of this study, which is expected to occur in the first half of 2002, there could be material subsequent reclassification adjustments between deferred tax assets and goodwill from the GateField acquisition, if these acquired net operating losses become realizable.

IPRD was identified and valued through extensive interviews and analysis of data provided by GateField concerning developmental products, their stage of development, the time, cost, and resources needed to complete them, and associated risks. The income approach, which bases the value of an asset on its future earnings capacity, was utilized in valuing the IPRD. This approach values an asset based on the future cash flows projected to be generated by the asset over its estimated useful life. To estimate the value of the IPRD, the future cash flows were discounted to their present value utilizing a discount rate (25%) that would provide sufficient return to a potential investor. At the date of acquisition, the in-process technology had no alternative future use and was not ready for commercial production.

GateField commenced development efforts on the next-generation ProASIC product beginning in 2000. The development efforts included adding features, such as increased input-output speed, an improved programming mechanism, increasing the number of routing tracks and the number of available gates, and migrating the ProASIC technology from a 0.25-micron to a 0.22-micron manufacturing process. GateField had invested significant time and effort in developing this product family but, at the time of acquisition, it had not yet reached technological feasibility. At the time of the acquisition, GateField estimated the project was approximately 50% complete and would be complete in the first quarter of 2001. The percentage was based on GateField having expended 11.7 man-years prior to the acquisition and the need to expend an estimated 11.5 man-years following the acquisition to complete the product. Given that there was significant technological risk relating to the development of the next-

generation ProASIC product and that not even the first-generation ProASIC product had generated any revenue, this product family met the definition of in-process technology and was classified as such.

The fair value of the estimated discounted cash flows of the next-generation ProASIC was calculated to be $5.1 million on November 15, 2000. The fair value calculation was based on future cash flows anticipated in the years 2001 through 2005, with associated gross margin and expense levels as a percentage of revenues gradually improving to current Actel operating levels by 2003.

Actel introduced the next-generation ProASIC product (ProASIC Plus) in January 2002, approximately one year later than estimated at the time of acquisition. The delay in introduction confirms the uncertainties that existed at the time of acquisition and supports the initial classification of the technology as IPRD. Management does not believe the delay had a material impact on the value attributed to the technology because no similar competing products were introduced and the marketability of the next-generation product was not materially diminished. Based on facts and circumstances currently known, management believes the value attributed to the IPRD is still materially valid.

The value of the assembled workforce was estimated using a cost approach. This approach identifies the employees that would require significant cost to replace and train. This analysis then estimates the fully-burdened costs (locating, interviewing, and hiring) attributed to each employee. These costs are aggregated and tax-effected to estimate the value of the acquired workforce. The value assigned to the acquired workforce was $0.5 million, which Actel fully amortized on a straight-line basis over the estimated useful life of six months.

The amounts attributed to developed technology and core technology were valued using the income approach described above with discount rates of 15% for developed technology and 20% for core technology. The value of core technology represents technology from previously discontinued products that can be applied to future revenue generating products. The value assigned to developed technology is based on technology that has achieved technological feasibility. The amounts assigned to developed and core technology, $5.8 million and $2.9 million, respectively, is being amortized on a straight-line basis over an estimated useful life of five years.

The value assigned to tradename represents the value attributed to the ProASIC tradename owned by GateField. The relief from royalty methodology was utilized to value the tradename. This methodology assumes that the value of the asset equals the amount a third party would pay for the asset. Therefore, a revenue stream for the asset is estimated, and then an appropriate royalty rate is applied to the forecasted revenue to estimate the pre-tax income associated with the asset. The pre-tax income is then tax-effected to estimate the after-tax net income associated with the asset. Finally, the after-tax net income is discounted to the present value using an appropriate rate of return (20%) that considers both the risk of the asset and the associated cash flow estimates. Actel is amortizing the $0.3 million value assigned to the tradename on a straight-line basis over an estimated useful life of five years.

To value the patent applications, the relief from royalty methodology described above was utilized using a 25% rate of return for present value discounting. Actel is amortizing the $1.0 million value assigned to the patent applications on a straight-line basis over an estimated useful life of five years.

Goodwill, which represents the excess of the purchase price of GateField over the fair value of the underlying net identifiable assets, was amortized during 2001 based on a straight-line basis and an estimated useful life of five years. In accordance with SFAS No. 142, beginning with the first quarter of 2002, goodwill will no longer be amortized, but will instead be reviewed annually for impairment and adjusted to the extent that impairment exists. See Note 1 for further discussion of the impact of adopting SFAS No. 142.

Deferred tax assets and liabilities have been recorded to reflect the future benefits and obligations associated with the deductibility of GateField net operating loss carryforwards and the non-deductibility of amortization related to acquired goodwill and intangible assets. Approximately $3.7 million of net deferred tax assets were recorded as part of the purchase price.

Prosys

On June 2, 2000, Actel announced and completed the acquisition of Prosys Technology, Inc. (Prosys), a developer of embedded FPGA cores, in a transaction accounted for as a purchase. Total consideration for the Prosys acquisition was $24.5 million. In connection with the acquisition, Actel paid $6.9 million in cash and issued 220,518 shares of Actel common stock, at a value of $34.13 per share, for all outstanding shares of Prosys stock. The price per share of common stock was based on an average of five days closing market prices for Actel common stock during the period of June 1 through June 7, 2000. Actel assumed $0.1 million of liabilities and incurred $0.1 million of acquisition costs. Actel also assumed all outstanding Prosys options, all of which were vested. The outstanding options were estimated to have a fair value equal to $9.9 million (using the Black-Scholes option pricing model) and are included in the purchase price. Prosys's results of operations are included in Actel's income statement for the period from June 2 to December 31, 2000, and succeeding years.

In accordance with the provisions of APB Opinion No. 16, all identifiable assets and liabilities were assigned a portion of the total consideration on the basis of their respective fair values. The consideration was allocated, based on the valuation report of an independent valuation specialist, as follows (in thousands):

In-process research and development	$ 5,558
Acquired work-force	273
Patent applications	349
Cash & other current assets	57
Deferred tax liability	(249)
Goodwill	18,534
	$ 24,522

IPRD was identified and valued through extensive interviews and analysis of data provided by Prosys concerning developmental products, their stage of development, the time, cost, and resources needed to complete them, and associated risks. The income approach, as discussed above, and a discount rate of 25% was utilized in valuing the IPRD. At the date of acquisition, the in-process technology had no alternative future use and had not reached technological feasibility.

As of the valuation date, Prosys had no developed products in the marketplace and was in the process of developing a 4x4 embedded block SRAM-based FPGA core and had planned an 8x8 embedded block SRAM-based FPGA core. These IP cores allow other semiconductor companies to embed functional blocks of programmable logic into their silicon designs. Prosys indicated that the 4x4 embedded block was expected to be completed in late 2000, following the development of key software features. The 8x8 embedded block core was estimated to require approximately six- to nine-months of additional development effort after the completion of the 4x4 embedded block core. The planned development time of six- to nine-months was based on leveraging the technology available from the 4x4 embedded block core. As of the valuation date, Prosys had incurred development costs of approximately $3.1 million related to the 4x4 embedded block core and estimated that an additional $1.3 million of research and development was required to complete the development of this product. Thus, the in-process 4x4 embedded block core was estimated to be approximately 70% complete. Since the 8x8 embedded block core will leverage technology from the 4x4 embedded block core in process, the 8x8 embedded block core was estimated to be 35% complete in its development. These products were in development at the time of acquisition and there was significant technological risk at that time related to completing development of these products. Accordingly, the 4x4 embedded block core and the 8x8 embedded block core were classified as in-process technology.

The fair value of the estimated discounted cash flows of the Prosys in-process technology was calculated to be $5.6 million on June 2, 2000. The fair value calculation was based on future cash flows anticipated in the years 2000 through 2005, with associated gross margin and expense levels as a percentage of revenues gradually improving to current Actel operating levels by 2002.

The 4x4 embedded block core was introduced in February 2001 as the VariCore Embedded Programmable Gate Array (EPGA) IP core. Due to the recent downturn in the semiconductor industry, revenues from VariCore EPGAs are materializing slower than anticipated. Given the low level of demand during 2001 for embedded cores, the development effort on the 8x8 embedded core was postponed. Development of the 8x8 embedded block core may resume when demand for embedded cores increases. Management does not believe that the delay of one quarter in the completion of the 4x4 embedded block core, the postponement of the development of the 8x8 embedded block core, or the delay in the realization of significant revenues from the VariCore EPGA technology are sufficient at this time to impact the values attributed to the IPRD, goodwill, and intangible assets. Based on facts and circumstances current known, the lack of any significant revenues is seen as a delay rather than a reduction in expected revenues, so management believes the value attributed to the IPRD is still materially valid.

The value of the assembled workforce was estimated using a cost approach. Actel amortized the $0.3 million value assigned to the acquired workforce on a straight-line basis over the estimated useful life of six months.

To value the patent applications, the relief from royalty methodology was utilized with a discount rate of 25%. Actel is amortizing the $0.3 million value assigned to the patent applications on a straight-line basis over an estimated useful life of five years.

$18.5 million of goodwill, which represents the excess of the purchase price of Prosys over the fair value of the underlying net identifiable assets, was amortized during 2001 based on a straight-line basis and an estimated useful life of five years. In accordance with SFAS No. 142, beginning with the first quarter of 2002, goodwill will no longer be amortized, but will instead be reviewed annually for impairment and adjusted to the extent that impairment exists. See Note 1 for further discussion of the impact of adopting SFAS No. 142.

During 2001, additional consideration of $1.7 million was issued to Prosys security holders. The additional consideration, which consisted of 54,290 shares of Actel common stock valued at $1.1 million and $0.6 million of cash, was issued to Prosys security holders pursuant to the achievement of certain technological milestones specified in the Prosys June 2000 purchase agreement, and was distributed to all shareholders of Prosys based on their relative equity interests at the date of acquisition. Accordingly, additional goodwill of $1.7 million was recorded during 2001.

AutoGate Logic

On December 21, 1999, Actel completed the acquisition of AutoGate Logic, Inc. (AutoGate Logic) in a transaction accounted for as a purchase. AutoGate Logic developed a wide range of very large scale integration development tools, including FPGA and custom integrated circuit place and route and timing analysis software. In connection with the acquisition, Actel issued 285,943 shares of common stock valued at $18.29 per share and assumed options exercisable for 89,057 shares of Actel common stock. The price per share of common stock was based on an average of five days closing market prices for Actel common stock during the period of October 1 through October 7, 1999, when the Agreement to acquire AutoGate Logic was announced. Amounts prepaid by Actel for a source code license and accounts receivable held by AutoGate Logic from Actel were netted to arrive at a total purchase price of $7.2 million.

In accordance with provisions of APB Opinion No. 16, all identifiable assets and liabilities were assigned a portion of the total consideration on the basis of their respective fair values. The consideration was allocated, based on the valuation report of an independent valuation specialist, as follows (in thousands):

In-process research and development	$ 600
Completed technology	2,100
Assembled work force	200
Cash	281
Deferred tax liability	(920)
Goodwill	4,938
	$ 7,199

The acquired completed technology, comprised of products that were already technologically feasible upon acquisition, includes product neutral software tools for place and route and architecture evaluation. Actel expects to amortize the acquired completed technology of approximately $2.1 million on a straight-line basis over an average estimated useful life of five years.

The acquired assembled workforce consisted of employees from AutoGate Logic's engineering group. Actel amortized the value assigned to the assembled workforce of approximately $0.2 million on a straight-line basis over the estimated useful life of six months.

Goodwill, which represents the excess of the purchase price of AutoGate Logic over the fair value of the underlying net identifiable assets, is being amortized on a straight-line basis over its estimated life of five years. In accordance with SFAS No. 142, beginning with the first quarter of 2002, goodwill will no longer be amortized, but will instead be reviewed annually for impairment and adjusted to the extent that impairment exists. See Note 1 for further discussion of the impact of adopting SFAS No. 142.

6. Restructuring Charges

During the second quarter of 1999, Actel completed a restructuring plan that resulted in a reduction in force along with the elimination of certain projects and non-critical activities. The total pretax restructuring charge for these activities amounted to $2.0 million. These measures were taken to reduce spending and sharpen Actel's focus on new product development.

Description	Cash/ Non-Cash	Restruc-turing Charge	Activity	Balance at Dec. 31, 1999
		(in thousands)		
Employee severance and outplacement	Cash	$ 586	$ 586	$ —
Write-off of prepaid license	Non-cash	734	734	—
Abandoned capital assets	Non-cash	643	643	—
		$ 1,963	$ 1,963	$ —

Employee Severance and Outplacement Expenses were comprised primarily of severance packages for 31 employees across all functions who were terminated as part of a reduction in force. The severance was computed based upon severance compensation, benefits, and related employer payroll taxes.

Write-Off of Prepaid License was associated with the cancellation of a certain product and related development project. The product was eliminated from Actel's future revenue stream and therefore the license for the product had no future economic benefit to Actel.

Abandoned Capital Assets consisted of the write-off of capitalized costs associated with a new building project that was abandoned and fixed assets no longer utilized by Actel that were scrapped. The abandonment of the building project and scrapping of the fixed assets were a direct result of the reduction in force and elimination of certain non-critical activities.

7. Commitments

Actel leases its facilities under non-cancelable lease agreements. The current primary facilities lease agreement expires in June 2003, with a five-year renewal option. The equipment lease terms are month-to-month. Actel's facilities and equipment leases are accounted for as operating leases and require Actel to pay property taxes, insurance and maintenance and repair costs. At December 31, 2001, Actel had no capital lease obligations. At December 31, 2000, Actel's capital lease obligations were not material.

Actel has entered into non-cancelable licensing agreements with external software developers to enable Actel to include their proprietary technology in Actel design and programming software. The following represents contractual commitments associated with operating leases and royalty and licensing agreements:

	Payments Due by Period				
	Total	2002	2003	2004	2005 and later
Operating leases	$ 5,711	$ 3,575	$ 1,901	$ 235	$ —
Royalty/licensing agreements	11,097	2,747	2,575	2,575	3,200
Total	$ 16,808	$ 6,322	$ 4,476	$ 2,810	$ 3,200

At December 31, 2001, Actel also had a number of purchase commitments from wafer manufacturers for raw materials orders that were expected to be filled within ninety days. The wafer purchase commitments represent a normal level of outstanding orders and are not material.

Rental expense under operating leases was approximately $4.4 million, $4.3 million, and $4.2 million for 2001, 2000, and 1999, respectively.

8. Retirement Plan

Effective December 10, 1987, Actel adopted a tax deferred savings plan for the benefit of qualified employees. The plan is designed to provide employees with an accumulation of funds at retirement. Employees may elect at any time to have salary reduction contributions made to the plan.

Actel may make contributions to the plan at the discretion of the Board of Directors. Actel made no contributions to the plan for 2001 and made contributions of $0.5 million and $0.4 million for 2000 and 1999, respectively. Contributions were based on net revenues and net income for the fiscal years. The contributions vest annually, retroactively from an eligible employee's date of hire, at the rate of 25% per year. In addition, contributions become fully vested upon retirement from Actel at age 65. There is no guarantee Actel will make any contributions to the plan in the future, regardless of its financial performance. If Actel, in its discretion, chooses to make a contribution again in the future, the amount could be higher or lower.

9. Shareholders' Equity

Stock Option Exchange Program

Actel offered its United States employees the opportunity to cancel options that were outstanding on June 29, 2001, in exchange for the grant of a new stock option six months and one day later. Under the stock option exchange program, approximately 510,000 stock options were granted to employees at an exercise price of $19.91, the closing price of Actel common stock on December 31, 2001. The weighted average exercise price of the options cancelled in the stock option exchange program was $35.23.

Stock Repurchase

Actel authorized a stock repurchase program in September 1998 whereby up to 1,000,000 shares of Actel's common stock may be purchased from time to time in the open market at the discretion of management. An additional 1,000,000 shares were authorized for repurchase in 1999. During 2001 and 1999, Actel did not repurchase any common stock. During 2000, Actel repurchased 886,108 shares of common stock for $21.0 million. Actel reissues repurchased shares through its employee stock option and purchase plans.

Stock Option Plans

Actel has adopted stock option plans under which officers, employees, and consultants may be granted incentive stock options or nonqualified options to purchase shares of Actel's common stock. In connection with the acquisition of Prosys and GateField, Actel assumed the stock option plans of Prosys and GateField and the related options are incorporated in the amounts below. At December 31, 2001, 13,311,453 shares of common stock were reserved for issuance under these plans, of which 478,628 were available for grant. Actel's stock option plan provides that the aggregate number of shares that may be optioned and sold under the plan is increased annually on the first day of each fiscal year by such amount as is necessary to make the total number of shares available for grant under the option plan equal to 5% of Actel Common Stock issued and outstanding at the close of business on the last day of the immediately preceding fiscal year (Annual Replenishment). Following the Annual Replenishment on January 7, 2002, a total of 14,513,942 shares of Common Stock were reserved for issuance under the option plan, of which 1,681,117 shares were available for future option grants. Options granted to consultants in 2001, 2000, and 1999 were recorded at fair value using the Black-Scholes model in accordance with EITF 96-18, "Accounting for Equity Instruments that are Issued to Other than Employees for Acquiring, or in Conjunction with Selling, Goods or Services," and FASB Interpretation No. 44, "Accounting for Certain Transactions Involving Stock Compensation -- an interpretation of APB Opinion No. 25" and were not material.

Actel has also adopted a Directors' Stock Option Plan, under which directors who are not employees of Actel may be granted nonqualified options to purchase shares of Actel's common stock. At December 31, 2001, 292,500 shares of common stock were reserved for issuance under such plan, of which 75,000 were available for grant.

Actel grants stock options under its plans at a price equal to the fair value of Actel's common stock on the date of grant. Subject to continued service, options generally vest over a period of four years and expire ten years from the date of grant.

The following table summarizes Actel's stock option activity and related information for the three years ended December 31, 2001:

	2001		2000		1999	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Outstanding at January 1	6,840,991	$ 19.08	5,862,933	$ 12.62	5,051,840	$ 11.41
Granted	2,472,715	21.21	3,264,468	26.44	2,339,561	14.34
Exercised	(514,574)	9.86	(1,189,898)	10.49	(620,226)	9.94
Cancelled	(1,290,840)	29.00	(1,096,512)	15.72	(908,242)	12.14
Outstanding at December 31	7,508,292	$ 18.70	6,840,991	$ 19.08	5,862,933	$ 12.62

The following table summarizes information about stock options outstanding at December 31, 2001:

	December 31, 2001				
	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number of Shares	Weighted Average Remaining Contract Life (in years)	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
$ 0.07 - 10.63	975,934	5.05	$ 8.91	578,094	$ 8.66
10.88 - 13.06	1,116,783	5.91	12.16	866,879	12.06
13.56 - 15.00	799,682	7.18	14.06	477,969	14.11
15.13 - 19.91	1,059,501	8.91	18.66	274,089	17.16
20.13 - 21.88	618,775	8.81	20.81	146,112	20.69
21.90 – 21.90	1,032,323	9.56	21.90	14,375	21.90
21.93 - 25.00	739,717	8.99	23.60	119,286	23.70
26.06 - 27.13	81,750	8.89	26.26	6,670	27.13
27.50	764,245	8.12	27.50	84,467	27.50
28.13 - 54.45	319,582	8.44	34.54	66,590	32.95
	7,508,292	7.77	18.70	2,634,531	14.35

At December 31, 2000, 1,761,989 outstanding options were exercisable; and at December 31, 1999, 1,701,538 outstanding options were exercisable.

Employee Stock Purchase Plan

Actel has adopted an Employee Stock Purchase Plan (ESPP), under which eligible employees may designate not more than 15% of their cash compensation to be deducted each pay period for the purchase of common stock (up to a maximum of $25,000 worth of common stock in any year). At December 31, 2001, 3,019,680 shares of common stock were authorized for issuance under the ESPP. The ESPP is administered in consecutive, overlapping offering periods of up to 24 months each, with each offering period divided into four consecutive six-month purchase periods beginning August 1 and February 1 of each year. On the last business day of each purchase period, shares of common stock are purchased with employees' payroll deductions accumulated during the prior six months at a price per share equal to 85% of the market price of the common stock on the first day of the applicable offering period or the last day of the purchase period, whichever is lower. There were 223,311, 384,436, and 364,163 shares issued under the ESPP in 2001, 2000, and 1999, respectively, and 993,593 shares remained available for issuance at December 31, 2001.

Pro Forma Disclosures

Pro forma information regarding net income and net income per share is required by SFAS 123, which also requires that the information be determined as if Actel had accounted for its stock-based awards to employees granted subsequent to December 31, 1994, under the fair value method. The stock based awards consist of options and employee stock purchase rights. The fair value for these stock-based awards to employees was estimated at the date of grant using the Black-Scholes pricing model with the following weighted-average assumptions for 2001, 2000, and 1999: risk-free interest rates of 4.06%, 6.13%, and 5.55%, respectively; no dividend yield; volatility factor of the expected market price of Actel's common stock of 67%, 65%, and 54%, respectively; and a weighted-average expected life for the options and employee stock purchase rights of four years and two years, respectively. The weighted-average fair value of options granted during 2001, 2000, and 1999 were $10.49, $15.07, and $7.17, respectively. The weighted-average fair value of employee stock purchase rights granted during 2001, 2000, and 1999 were $8.14, $6.64, and $5.76, respectively.

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options, which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions, including the expected stock price volatility. Because Actel's stock-based awards to employees have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion the existing models do not necessarily provide a reliable single measure of the fair value of Actel's stock-based awards to employees.

For purposes of pro forma disclosures, the estimated fair value of Actel's stock-based awards to employees is amortized to expense over the vesting period for options and during the purchase periods for employee stock purchase rights. Actel's pro forma information is as follows:

	Years Ended December 31,		
	2001	**2000**	**1999**
	(in thousands, except per share amounts)		
Pro forma net income (loss)	**$ (19,712)**	$ 31,597	$ 9,186
Pro forma earnings per share:			
Basic	**$ (0.83)**	$ 1.35	$ 0.42
Diluted	**$ (0.83)**	$ 1.22	$ 0.41

The effects on pro forma disclosures of applying SFAS 123 are not likely to be representative of the effects on pro forma disclosures in future years.

10. Comprehensive Income (Loss)

The components of comprehensive income (loss), net of tax, are as follows:

	Years Ended December 31,		
	2001	**2000**	**1999**
	(in thousands)		
Net income (loss)	**$ (4,701)**	$ 41,445	$ 17,638
Change in gain on available-for-sale securities, net of tax of $185 in 2001, $172 in 2000, and $10,595 in 1999	**276**	853	15,892
Less reclassification adjustment for gains included in net income/(loss)	**(220)**	(16,163)	(9)
Other comprehensive income (loss)	**56**	(15,310)	15,883
Total comprehensive income (loss)	**$ (4,645)**	$ 26,135	$ 33,521

Accumulated other comprehensive income for 2001, 2000, and 1999 is presented in the accompanying consolidated balance sheets, and consists of the accumulated net unrealized gain on available-for-sale securities.

11. Tax Provision

The tax provision/(benefit) consists of:

	Years Ended December 31,		
	2001	**2000**	**1999**
	(in thousands)		
Federal – current	**$ (146)**	$ 31,554	$ 11,709
Federal – deferred	**1,917**	(5,402)	(5,073)
State – current	**(84)**	5,078	1,720
State – deferred	**(1,045)**	(299)	(591)
Foreign – current	**295**	296	290
	$ 937	$ 31,227	$ 8,055

The tax provision reconciles to the amount computed by multiplying income before tax by the U.S. statutory rate as follows:

	December 31,		
	2001	**2000**	**1999**
	(in thousands)		
Provision/(benefit) at federal statutory rate	**$ (1,317)**	$ 25,435	$ 8,993
Change in valuation allowance	**(440)**	(440)	(440)
Tax exempt interest income	**(910)**	(1,050)	(770)
Federal research credits	**(1,100)**	(1,600)	(1,031)
State taxes, net of federal benefit	**(420)**	3,106	734
Write-down of deferred tax asset due to state tax rate reduction	**1,044**	—	—
Non-deductible impact of amortization of intangibles/investments	**4,092**	3,183	341
Non-deductible impact of in-process research and development	**—**	3,726	210
Other	**(12)**	(1,133)	18
Tax provision	**$ 937**	$ 31,227	$ 8,055

Significant components of Actel's deferred tax assets and liabilities for federal and state income taxes are as follows:

	December 31,	
	2001	**2000**
	(in thousands)	
Deferred tax assets:		
Depreciation	**$ 2,228**	$ 1,968
Deferred income	**10,243**	17,159
Intangible assets	**4,422**	4,994
Inventories	**7,284**	3,802
Net operating losses of acquired companies	**34,139**	34,714
Other, net	**8,645**	5,432
	66,961	68,069
Valuation allowance	**(28,003)**	(28,443)
Net deferred tax assets	**$ 38,958**	$ 39,626
Deferred tax liabilities:		
Intangible assets	**$ 3,927**	$ 5,067

The valuation allowance declined by approximately $0.4 million during 2001 and 2000. Approximately $27.2 million of the valuation allowance at December 31, 2001 will be allocated to reduce goodwill or other non-current intangible assets from the acquisition of GateField when realized.

Actel has a net operating loss carryforward as a result of the GateField acquisition of approximately $90 million, which will expire at various times beginning in 2006 and ending in 2020. In addition, Actel has California research and development and manufacturer's investment credits of approximately $0.8 million and $0.2 million, respectively, which will expire in 2006. Pre-tax income from foreign subsidiaries is immaterial.

12. Segment Disclosures

Actel operates in a single operating segment: designing, developing, and marketing FPGAs. FPGA sales accounted for 96% of net revenues for the end of the years ended December 31, 2001, 2000, and 1999. Actel also derives revenues from the sale of software and hardware systems, which are used to design and program FPGAs. In addition, Actel derives revenues from the performance of design services, including FPGA, ASIC, and system design; software development and implementation; and development of prototypes, first articles and production units. The Protocol Design Services organization, which Actel acquired from GateField in the third quarter of 1998, accounted for 1%, 2%, and 2% of net revenues for the years ended December 31, 2001, 2000, and 1999, respectively.

Actel markets its products in the United States and in foreign countries through its sales personnel, independent sales representatives, and distributors. Actel's geographic sales are as follows:

	Years Ended December 31,					
	2001		2000		1999	
	(in thousands, except percentages)					
United States	**$ 89,847**	**62%**	$ 153,847	68%	$ 121,819	71%
Export:						
Europe	**40,652**	**28**	43,282	19	29,010	17
Japan	**6,630**	**4**	16,561	7	9,562	6
Other international	**8,430**	**6**	12,729	6	11,270	6
	$ 145,559	**100%**	$ 226,419	100%	$ 171,661	100%

Actel generates a majority of its revenues from the sale of its products through distributors. As of December 31, 2001, Actel's principal distributors were Unique Technologies, Inc. (Unique) and Pioneer-Standard Electronics, Inc. (Pioneer). During 2001, Actel consolidated its distribution channel by terminating Arrow Electronics, Inc. (Arrow). The following table sets forth, for each of the last three years, the percentage of revenues derived from all customers accounting for 10% or more of net revenues in any of such years:

	2001	2000	1999
Pioneer	**20%**	13%	12%
Unique	**19**	15	13
Arrow	**13**	17	16
Nortel Networks	**2**	11	9

Actel estimates that sales of its products to customers in the communications market and the military and aerospace markets accounted for 49% and 26% of net revenues for 2001, respectively. Actel has experienced, and may again in the future experience, substantial period-to-period fluctuations in operating results due to conditions in the communications market or the general economy and no assurance can be given that future sales to customers in the military and aerospace industries will continue at current volume.

Actel's property, plant and equipment are located primarily in the United States. Property, plant and equipment located outside of the United States is not material.

13. Patent Infringement

On March 29, 2000, Unisys Corporation (Unisys) brought suit in the United States District Court for the Northern District of California, San Jose Division (Court), against Actel seeking monetary damages and injunctive relief. Actel and Unisys orally agreed to settle the case on April 25, 2001, and executed a definitive written settlement agreement on June 29, 2001. The Court dismissed the case with

prejudice on July 13, 2001. The settlement was immaterial to Actel's business, financial condition, and operating results.

As is typical in the semiconductor industry, Actel has been and expects to be notified from time to time of claims that it may be infringing patents owned by others. During 2001, Actel held discussions regarding potential patent infringement issues with several third parties, some of which have significantly greater financial and intellectual property resources than Actel. When probable and reasonably estimable, Actel has made provision for the estimated settlement costs of claims for alleged infringement. The provision is based on an estimated royalty rate applied to shipments made in the periods and to or from the geographic areas under dispute. In the absence of facts or circumstances unique to a particular dispute, the royalty rate is estimated based on Actel's understanding of royalty rates other technology companies typically agree to pay in similar types of disputes. As it has in the past, Actel may obtain licenses under patents that it is alleged to infringe. While Actel believes that reasonable resolution will occur, there can be no assurance that these claims will be resolved or that the resolution of these claims will not have a materially adverse effect on Actel's business, financial condition, or results of operations. In addition, Actel's evaluation of the impact of these pending disputes could change based upon new information learned by Actel. Subject to the foregoing, Actel does not believe that any pending patent dispute is likely to have a materially adverse effect on Actel's business, financial condition, or results of operations.

14. Earnings Per Share

The following table sets forth the computation of basic and diluted earnings per share:

	Years Ended December 31,		
	2001	**2000**	**1999**
	(in thousands, except per share amounts)		
Basic:			
Weighted-average common shares outstanding	**23,743**	23,447	21,664
Shares used in computing net income per share	**23,743**	23,447	21,664
Net income (loss)	**$ (4,701)**	$ 41,445	$ 17,638
Net income (loss) per share	**$ (0.20)**	$ 1.77	$ 0.81
Diluted:			
Weighted-average common shares outstanding	**23,743**	23,447	21,664
Net effect of dilutive stock options, warrants, and convertible preferred stock – based on the treasury stock method	—	2,786	1,394
Shares used in computing net income per share	**23,743**	26,233	23,058
Net income (loss)	**$ (4,701)**	$ 41,445	$ 17,638
Net income (loss) per share	**$ (0.20)**	$ 1.58	$ 0.76

For 2001, Actel was in a net loss position and the inclusion of any stock options in the shares used for computing diluted net loss per share would have been anti-dilutive (reduced the loss per share). Therefore, approximately 1,381,000 common stock equivalent shares which would have been included if Actel had achieved a net income and 2,635,000 options which were excluded from the calculation because their inclusion would have had an anti-dilutive effect were excluded from the calculation to derive the net loss per share for 2001. Options outstanding under Actel's stock option plans to purchase approximately 361,000 and 218,000 shares of Actel common stock were excluded from the calculation to derive diluted income per share for the years 2000 and 1999, respectively, because their inclusion would have had an anti-dilutive effect.

REPORT OF ERNST & YOUNG LLP, INDEPENDENT AUDITORS

THE BOARD OF DIRECTORS AND SHAREHOLDERS
ACTEL CORPORATION

We have audited the accompanying consolidated balance sheets of Actel Corporation as of December 31, 2001 and 2000, and the related consolidated statements of operations, shareholders' equity and other comprehensive income/(loss), and cash flows for each of the three years in the period ended December 31, 2001. These financial statements are the responsibility of Actel's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Actel Corporation at December, 31 2001 and 2000 and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States.

/s/ ERNST & YOUNG LLP

San Jose, California
January 21, 2002

ANNUAL REPORT

ON

FORM 10-K

TABLE OF CONTENTS

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

FORM 10-K

(Mark One)

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

For the fiscal year ended **January 6, 2002**

OR

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

Commission file number 0-21970

ACTEL CORPORATION

(Exact name of Registrant as specified in its charter)

California	**77-0097724**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
955 East Arques Avenue Sunnyvale, California	**94086-4533**
(Address of principal executive offices)	(Zip Code)

(408) 739-1010
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12 (b) of the Act:
None

Securities registered pursuant to Section 12(g) of the Act:
Common Stock, $.001 par value
(Title of class)

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** ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Annual Report on Form 10-K or any amendment to this Annual Report on Form 10-K. ☐

The aggregate market value of the voting stock held by non-affiliates of the Registrant, based upon the closing price for shares of the Registrant's Common Stock on **April 3, 2002**, as reported by the National Market System of the National Association of Securities Dealers Automated Quotation System, was approximately **$368,000,000**. In calculating such aggregate market value, shares of Common Stock owned of record or beneficially by all officers, directors, and persons known to the Registrant to own more than five percent of any class of the Registrant's voting securities were excluded because such persons may be deemed to be affiliates. The Registrant disclaims the existence of control or any admission thereof for any purpose.

Number of shares of Common Stock outstanding as of **April 3, 2002: 24,231,482**.

DOCUMENTS INCORPORATED BY REFERENCE

The following documents are incorporated by reference in Parts II, III, and IV of this Annual Report on Form 10-K: **(i) portions of Registrant's annual report to security holders for the fiscal year ended January 6, 2002 (Parts II and IV), and (ii) portions of Registrant's proxy statement for its annual meeting of shareholders to be held on May 24, 2002 (Part III).**

All information contained or incorporated by reference in this Annual Report on Form 10-K should be read in conjunction with and in the context of the Risk Factors set forth at the end of Part I. Unless otherwise indicated, the statements contained in this Annual Report on Form 10-K are made as of April 4, 2002, and Actel undertakes no obligation to update such statements, including forward-looking statements. The *italicized statements* contained in this Annual Report on Form 10-K are forward-looking statements made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Actual events and results may differ materially from those expressed or forecast in forward-looking statements due to the Risk Factors or for other reasons.

PART I

ITEM 1. BUSINESS

Overview

Actel designs, develops, and markets field programmable gate arrays (FPGAs) and associated development tools, intellectual property (IP) cores, and services. FPGAs are used by designers of communications, computer, consumer, industrial, military and aerospace, and other electronic systems to differentiate their products and get them to market faster. Actel is the leading supplier of FPGAs based on flash and antifuse technologies. Actel's strategy is to add value for application specific integrated circuit (ASIC) users and serve markets in which Actel's technologies have an advantage, including the ASIC replacement, high reliability, and high-speed communications markets.

Actel shipped its first products in 1988 and thousands of its development tools are in the hands of customers, including Alcatel; The Boeing Company (Boeing); Cisco Systems, Inc. (Cisco); Compaq Computer Corporation (Compaq); General Electric Company (GE); Honeywell International Inc. (Honeywell); Lockheed Martin Corporation (Lockheed Martin); Marconi Corporation plc (Marconi); Nortel Networks Corporation (Nortel); Samsung; Sanyo; and Siemens AG (Siemens). Actel has foundry relationships with BAE Systems (BAE) in the United States; Chartered Semiconductor Manufacturing Pte Ltd (Chartered) in Singapore; Infineon Technologies AG (Infineon) in Germany; Matsushita Electronics Company (MEC) in Japan; United Microelectronics Corporation (UMC) in Taiwan; and Winbond Electronics Corp. (Winbond) in Taiwan.

Actel markets its products through a worldwide, multi-tiered sales and distribution network. In 2001, sales made through distributors accounted for 68% of Actel's net revenues. Two of Actel's distributors, Pioneer-Standard Electronics, Inc. (Pioneer) and Unique Technologies, Inc. (Unique), accounted for 20% and 19%, respectively, of Actel's net revenues in 2001. In addition to the two distributors, the North American sales network includes 22 sales offices and 20 sales representative firms. Actel's European, Pan-Asia, and International sales networks include nine sales offices and 24 distributors and sales representative firms. In 2001, sales to customers outside the United States accounted for 38% of net revenues.

Actel was incorporated in California in 1985. Actel's principal facilities and executive offices are located at 955 East Arques Avenue, Sunnyvale, California 94086-4533, and its telephone number at that address is (408) 739-1010. Actel's World Wide Web address is http://www.actel.com. As used in this Annual Report on Form 10-K, "Actel" means Actel Corporation and its consolidated subsidiaries.

The Actel name and logo and ProASIC are registered trademarks of Actel. This Annual Report on Form 10-K also includes unregistered trademarks of Actel and registered and unregistered trademarks of other companies.

Industry Background

The three principal types of integrated circuits used in most digital electronic systems are microprocessor, memory, and logic circuits. Microprocessors are used for control and computing tasks; memory devices are used to store program instructions and data; and logic devices are used to adapt these processing and storage capabilities to a specific application. Logic circuits are found in virtually every electronic system.

The logic design of competing electronic systems is often a principal area of differentiation. Unlike the microprocessor and memory markets, which are dominated by a relatively few standard designs, the logic market is highly fragmented and includes, among many other segments, low-capacity standard transistor-transistor logic circuits (TTLs) and custom-designed ASICs. TTLs are standard logic circuits that can be purchased "off the shelf" and interconnected on a printed circuit board (PCB), but they tend to limit system performance and increase system size and cost compared with logic functions integrated at the circuit (rather than the board) level. ASICs are customized circuits that offer electronic system manufacturers the benefits of increased circuit integration: improved system performance, reduced system size, and lower system cost.

ASICs include conventional gate arrays, standard cells, and programmable logic devices (PLDs). Conventional gate arrays and standard cell circuits are customized to perform desired logical functions at the time the device is manufactured. Since they are "hard wired" at the wafer foundry, conventional gate arrays and standard cells are subject to the time and expense risks associated with any development cycle involving a foundry. Typically, conventional gate arrays and standard cells are first delivered in production volumes months after the successful production of acceptable prototypes. In addition, conventional gate arrays and standard cells cannot be modified after they are manufactured, which subjects them to the risk of inventory obsolescence and constrains the system manufacturer's ability to change the logic design. PLDs, on the other hand, are manufactured as standard devices and customized "in the field" by electronic system manufacturers using computer-aided engineering (CAE) design and programming systems. PLDs are being used by a growing number of electronic system manufacturers as a solution to their increasing demands for differentiation, rapid time to market, and manufacturing flexibility.

PLDs include simple PLDs, complex PLDs (CPLDs), and FPGA. The market for CPLDs and FPGAs has grown rapidly because they generally offer greater capacity, lower total cost per usable logic gate, and lower power consumption than TTLs and simple PLDs, and faster time to market and lower development costs than conventional gate arrays and standard cells. For many electronic system manufacturers, the time-to-market and manufacturing-flexibility benefits of CPLDs and FPGAs outweigh their price premium over conventional gate arrays or standard cells of comparable capacity.

Before a CPLD or FPGA can be programmed, there are various steps that must be accomplished by a designer using CAE design software. These steps include defining the function of the circuit, verifying the design, and laying out the circuit. Traditionally, logic functions were defined using schematic capture software, which essentially permit the designer to construct a circuit diagram on the

computer. As CPLD and FPGA have increased in capacity, the time required to create schematic diagrams using schematic capture tools has often become prohibitive. To address this problem, designers are increasingly turning to hardware description languages (HDLs), also known as high-level description (HLD). VHDL and Verilog are the most common HDLs, which permit the designer to describe the circuit functions at an abstract level and to verify the performance of logic functions at that level. The HDL can then be fed into logic synthesis software that automatically converts the abstract description to a gate-level representation equivalent to that produced by schematic capture tools. After a gate-level representation of the logic function has been created and verified, it must be translated or "layed out" onto the generic logic modules of the CPLD or FPGA. This is achieved by placing the logic gates and routing their interconnections, a process referred to as "place and route." After the layout of the device has been verified by timing simulation, the CPLD or FPGA can be programmed.

Electronic system manufacturers program a CPLD or FPGA to perform the desired logical functions by using a device programmer to change the state of the device's programming elements (such as antifuses or memory cells) through the application of an electrical signal. Most CPLDs are programmed with erasable programmable read only memories or other "floating gate" technologies. Many FPGAs are programmed with static random access memory (SRAM) technology. Actel's FPGAs use flash and antifuse programming elements. After programming, the functionality and performance of the programmed CPLD or FPGA in the electronic system must be verified.

To a large extent, the characteristics of a CPLD or FPGA are dictated by the technology used to make the device programmable. CPLDs and FPGAs based on programming elements controlled by floating gates or SRAMs must be configured by a separate boot device, such as the serial programmable read only memory commonly used with SRAM FPGAs. The need to boot these devices makes them less reliable and secure and means they are not functional immediately on power-up, lose their circuit configurations in the absence of power, and often require a separate boot device. In addition, SRAM FPGAs and CPLDs based on look-up tables tend to consume more power. FPGAs based on flash and antifuse programming elements do not need to be booted-up and are reliable, secure, "live-at-power-up," nonvolatile, single-chip solutions that operate at low power. These are all characteristics shared by conventional "hard-wired" ASICs.

The technology used to make a CPLD or FPGA programmable dictates whether the device is reprogrammable as well whether it's volatile. CPLDs and FPGAs based on programming elements controlled by floating gates or SRAMs are reprogrammable but lose their circuit configuration in the absence of electrical power. FPGAs based on antifuse programming elements are one-time programmable (OTP) and retain their circuit configuration permanently, even in the absence of power. FPGAs based on programming elements controlled by flash memory are reprogrammable and retain their circuit configuration in the absence of power.

Actel Strategy

Actel's flash and antifuse technologies are differentiated from, and have certain advantages over, the SRAM and other technologies used in competing PLDs. Actel's strategy is to add value for ASIC users and serve markets in which Actel's technologies have an advantage, including the ASIC replacement, high reliability, and high-speed communications markets.

ASIC Replacement

The ASIC replacement market, which is driven primarily by cost, is addressed by Actel's general purpose FPGAs. Like ASICs, Actel's flash and antifuse FPGAs are nonvolatile, "live-at-power-up," low-power, single-chip solutions. Like other programmable devices, Actel's FPGAs reduce design risk, inventory investment, and time to market. In addition, logic designers can choose to use either ASIC or FPGA software tools and design methodologies, and the architectures of Actel's FPGAs enable the utilization of predefined IP cores, which can be reused across multiple designs or product versions.

High Reliability

The high reliability market, which is driven primarily by nonvolatility, security, and resistance to radiation effects, is addressed by Actel's military, avionics, and space-grade FPGAs. Actel is the world's leading supplier of high reliability PLDs. Actel's antifuse and flash FPGAs are nonvolatile, offer levels of design security beyond SRAM-based FPGAs and even conventional ASICs, and are not susceptible to configuration corruption caused by radiation. During 2001, Actel began shipping RTSX-S FPGAs, the second family of PLDs developed specifically to address radiation effects. Actel's RadHard family was the first.

High-Speed Communications

Much of the communications market is driven by speed, which has been the strength of Actel's antifuse FPGAs. To leverage this strength, Actel launched a "BridgeFPGA" initiative in 2001 to address the input-output (I/O) problems created within the high-speed communications market by the proliferation of interface standards. The adoption of these interface standards has created the need for designers to implement interface bridging functions to connect incompatible interface standards. *The first BridgeFPGA product will be a high-speed antifuse FPGA with dedicated high-speed I/O circuits that can support multiple interface standards. Subsequent BridgeFPGA products are expected to include embedded high-speed interface protocol controllers.*

Products and Services

Actel's product line consists of FPGAs, including general purpose FPGAs, high reliability FPGAs, and the recently-announced BridgeFPGA programmable interface products. *Actel expects to introduce the initial BridgeFPGA product in 2002.* In support of its FPGAs, Actel offers development tools, including design software, device programmers, verification and debugging tools, and prototyping sockets. In addition, Actel makes VariCore embedded programmable gate array (EPGA) and other IP cores available for licensing and offers design and programming services.

FPGAs

The capacity of FPGAs is measured in "gates," which traditionally meant four transistors. As FPGAs grew larger and their architectures more complex, counting gates became more challenging and no standard counting technique emerged. The appearance of FPGAs with memory further complicated matters because memory gates cannot be counted in the same way as logic gates. Unless otherwise indicated, "gate" or "gates" means "maximum system equivalent gates" when used in this Annual Report on Form 10-K to describe the capacity of FPGAs.

To meet the diverse customer requirements in the broad programmable logic market, all Actel FPGAs (except the two RadHard devices) are offered in a variety of speed grades, package types, and/or ambient temperature tolerances. Commercial devices are guaranteed to operate at ambient temperatures ranging from 0°C to +70ºC. Industrial devices are guaranteed to operate at ambient temperatures ranging from -40°C to +85°C. Military devices are guaranteed to operate at ambient temperatures ranging from -55°C to +125ºC.

General Purpose FPGAs

Actel's general purpose FPGAs include the flash-based ProASIC Plus and ProASIC families and the antifuse-based eX, SX-A, SX, MX, and legacy families.

ProASIC Plus

On January 7, 2002, Actel announced the launch of ProASIC Plus, the second-generation family of flash-based FPGAs. Based on a 0.22-micron process, the single-chip, nonvolatile, in-system programmable (ISP) ProASIC Plus family consists of six devices ranging in capacity from 150,000 to 1,000,000 gates. ProASIC Plus devices are "live at power up," highly secure, and require no separate configuration memory, all characteristics shared by ASICs. The first members of the ProASIC Plus family are currently available as engineering samples.

ProASIC

The ProASIC family of FPGAs, which was first shipped for revenue in 1999, consists of four products: the 98,000-gate A500K050, the 287,000-gate A500K130, the 369,000-gate A500K180, and the 473,000-gate A500K270. On April 10, 2001, Actel announced that it had begun sampling the A500K180 and A500K270 devices. The family is currently manufactured on a 0.25-micron embedded flash process at Infineon and offered in three packages. Actel announced the shipment of A500K050 and A500K130 devices qualified to industrial specifications on April 10, 2001, and the shipment of A500K180 and A500K270 devices qualified to industrial specifications on September 10, 2001.

The flash-based ProASIC family brings the advantages of ASICs and the benefits of PLDs to designers of high-density logic. Like ASICs, ProASIC devices are single-chip and live at power up, eliminating the need for a separate boot device, and operate at low power. Like other PLDs, ProASIC devices reduce time to market and minimize design risk and investment, requiring no mask sets or silicon re-spins. Unlike other PLDs available on the market today, which are either volatile or non-reprogrammable, ProASIC devices are nonvolatile and reprogrammable.

ProASIC devices also exhibit a high level of portability between PLD and ASIC design flows. Actel's ProASIC solutions make it possible to create high-density systems using existing ASIC or FPGA design flows and tools, shortening time to production. Conversion to a standard ASIC is also facilitated by ProASIC's ASIC-like design flow. In addition, the design methodology enables designers to use IP cores from proprietary

and third-party sources, eliminating much of the architecture-specific re-engineering required by other PLDs.

eX

The eX family of FPGAs, which was first shipped for revenue in 2001, consists of three devices: the 3,000-gate eX64, the 6,000-gate eX128, and the 12,000-gate eX256. The family is currently manufactured on a 0.25-micron antifuse process at UMC. The eX family can be ordered in approximately 55 speed, package, and temperature variations.

The eX family was designed for the e-appliance market of internet-related consumer electronics and includes a sleep mode to conserve battery power. eX devices also provide a small form factor, high design security, and an undemanding design process. The eX family is currently positioned as a single-chip programmable replacement for low-capacity ASICs.

SX-A and SX

The SX-A family of FPGAs, which was first shipped for revenue in 1999, consists of four products: the 12,000-gate A54SX08A, the 24,000-gate A54SX16A, the 48,000-gate A54SX32A, and the 108,000-gate A54SX72A. The family is currently manufactured on a 0.22-micron antifuse process at UMC and on a 0.25-micron antifuse process at MEC. The SX-A family can be ordered in approximately 215 speed, package, and temperature variations.

The SX family of FPGAs, which was first shipped for revenue in 1998, consists of four products: the 12,000-gate A54SX08, the 24,000-gate A54SX16 and A54SX16P, and the 48,000-gate A54SX32. The SX family is currently manufactured on a 0.35-micron antifuse process at Chartered. The SX family can be ordered in approximately 180 speed, package, and temperature variations.

SX was the first family to be built on Actel's fine-grained, "sea of modules" architecture, which delivers performance without the power penalty common to SRAM-based FPGAs. The SX-A and SX families are currently positioned as programmable devices with ASIC-like speed, power consumption, and pricing in volume production. In addition, the SX-A family offers I/O capabilities that provide full support for "hot-swapping." Hot swapping allows system boards to be exchanged while systems are running, a capability important to many portable, consumer, networking, telecommunication, and fault-tolerant computing applications.

MX

The MX family of FPGAs, which was first shipped for revenue in 1997, consists of six products: the 3,000-gate A40MX02, the 6,000-gate A40MX04, the 14,000-gate A42MX09, the 24,000-gate A42MX16, the 36,000-gate A42MX24, and the 54,000-gate A42MX36. The family is currently manufactured on 0.45-micron antifuse processes at

Chartered and Winbond. The MX family can be ordered in approximately 300 speed, package, and temperature variations.

The MX family was Actel's first line of ASIC-alternative FPGAs and ramped to volume the fastest of any product in Actel's history. The largest MX devices include system logic integration functions. The MX family is currently positioned as a line of low-cost, single-chip, mixed-voltage programmable ASICs for 5.0-volt applications.

Legacy Products

The MX family includes the best features of Actel's legacy FPGAs and over time ought to replace those earlier products in new 5.0-volt commercial designs. Legacy products include the DX, XL, ACT 3, ACT 2, and ACT 1 families.

DX and XL

The 3200DX family of FPGAs, which was first shipped for revenue in 1995, consists of five products: the 12,000-gate A3265DX, the 20,000-gate A32100DX, the 24,000-gate A32140DX, the 36,000-gate A32200DX, and the 52,000-gate A32300DX. The DX family is currently manufactured on a 0.6-micron antifuse process at Chartered and can be ordered in approximately 180 speed, package, and temperature variations.

The 1200XL family of FPGAs, which was first shipped for revenue in 1995, consists of three products: the 6,000-gate A1225XL, the 9,000-gate A1240XL, and the 16,000-gate A1280XL. The XL family is currently manufactured on a 0.6-micron antifuse process at Chartered and can be ordered in approximately 125 speed, package, and temperature variations.

The DX and XL families were designed to integrate system logic previously implemented in multiple programmable logic circuits. The DX family also offers fast dual-port SRAM, which is typically used for high-speed buffering.

ACT 3

The ACT 3 family of FPGAs, which was first shipped for revenue in 1993, consists of five products: the 3,000-gate A1415, the 6,000-gate A1425, the 9,000-gate A1440, the 11,000-gate A1460, and the 20,000-gate A14100. The family is currently manufactured on a 0.6-micron antifuse process at Chartered and a 0.8-micron antifuse process at Winbond. The ACT 3 family can be ordered in approximately 215 speed, package, and temperature variations. The family was designed for applications requiring high speed and a high number of I/Os.

ACT 2

The ACT 2 family of FPGAs, which was first shipped for revenue in 1991, consists of three products: the 6,000-gate A1225, the 9,000-gate A1240, and the 16,000-gate A1280. The family is currently manufactured on 1.0- and 0.9-micron antifuse processes at MEC and can be ordered in approximately 80 speed, package, and temperature variations. ACT 2 was Actel's second-generation FPGA family and featured a two-module architecture optimized for combinatorial and sequential logic designs.

ACT 1

The ACT 1 family of FPGAs, which was first shipped for revenue in 1988, consists of two products: the 2,000-gate A1010 and the 4,000-gate A1020. The family is currently manufactured on 1.0- and 0.9-micron antifuse processes at MEC and can be ordered in approximately 115 speed, package, and temperature variations. ACT 1 was the original family of antifuse FPGAs.

High Reliability FPGAs

Actel is the world's largest supplier of high reliability PLDs. Actel's military, avionics, and space-grade FPGAs have advantages over ASICs that are significant to complex, multi-national and cost-sensitive military and aerospace programs, including increased flexibility to make design changes after board layout is complete, shorter lead times, and lower cost of ownership with fewer vendors to qualify and no up-front engineering expenses. Since 1990, Actel FPGAs have been designed into numerous military and aerospace applications, including command and data handling, attitude reference and control, command and communications processors, and scientific instrument interfaces. Actel space-qualified FPGAs have been on board more than 100 launches and flight-unit applications on more than 300 satellites.

All Actel antifuse FPGAs (except for the three eX devices) are offered in plastic packages qualified to military temperature specifications. Actel has received complete Qualified Manufacturers Listing (QML) certification for the full line of plastic-packaged antifuse FPGAs, which can be integrated into design applications that would otherwise require higher-cost ceramic-packaged devices. The QML plastic certification also permits customers to integrate commercial and military production without compromising quality or reliability. Actel's MIL/Av, RadTolerant, and RadHard families are offered in hermetic packages.

MIL/Av

The MIL/Av family of FPGAs consists of fifteen products: the 2,000-gate A1010B, the 4,000-gate A1020B, the 6,000-gate A1425A, the 11,000-gate A1460A, the 16,000-gate A1280A and A1280XL, the 20,000-gate A14100A and A32100DX, the 24,000-gate A32140DX and A54SX16, the 36,000-gate A32200DX, the 48,000-gate A54SX32 and A54SX32A, the 54,000-gate A42MX36, and the 108,000-gate A54SX72A. MIL/Av FPGAs are shipped with Class B (MIL-STD-883) qualification.

RadTolerant

The RadTolerant family of FPGAs consists of nine products: the 4,000-gate RT1020, the 6,000-gate RT1425A, the 11,000-gate RT1460A, the 16,000-gate RT1280A, the 20,000-gate RT14100A, the 24,000-gate RT54SX16, the 48,000-gate RT54SX32 and RT54SX32S, and the 108,000-gate RT54SX72S. RadTolerant FPGAs are offered with Class B through Class E (extended flow/space) qualification, and total dose radiation test reports are provided on each segregated lot of devices.

RadTolerant FPGAs are designed to meet the logic requirements for all types of military, commercial, and civilian space applications, including satellites, launch vehicles, and deep-space probes. They provide cost-effective alternatives to radiation-hardened devices. In addition, RadTolerant devices have design- and pin-compatible commercial versions for prototyping.

On July 17, 2001, Actel announced the qualification and shipment of RT54SX32S, the first member of the radiation-tolerant RTSX-S family, which was specifically designed to address heavy ion-induced single-event upsets (SEUs) in space. The RTSX-S family is the industry's first qualified FPGA solution built using SEU-hardened latches, eliminating the need for user-instantiated triple module redundancy (TMR). To implement TMR in a traditional FPGA, approximately two-thirds of the device's available logic (or capacity) is consumed by redundancy and therefore unavailable for the user's design. The largest member of the RTSX-S family, the 108,000-gate RT54SX72S FPGA, more than quadrupled the amount of programmable logic previously available for applications requiring high SEU resistance.

RadHard

The RadHard family of FPGAs, which was first shipped for revenue in 1996, consists of two products: the 4,000-gate RH1020 and the 16,000-gate RH1280. The family is manufactured on a radiation-hardened 0.8-micron antifuse process by BAE at its QML facility in Manassas, Virginia. RadHard devices are shipped with full QML Class V screening. The RadHard family was designed to meet the demands of applications requiring guaranteed levels of radiation survivability. Applications for RadHard FPGAs include military and civilian satellites, deep space probes, and planetary missions.

BridgeFPGAs

On May 14, 2001, Actel announced its BridgeFPGA initiative, a strategy to address the interoperability problems created by the proliferation of high-performance interface standards. Traditionally, interface and interoperability issues have been solved by FPGAs that are custom designed for each new system. This, in combination with a proliferation in interface standards, has resulted in a growing bottleneck. To help alleviate the bottleneck, Actel is creating a family of devices that bridge multiple interface protocols.

Exploding system bandwidth requirements have left system designers with the difficult problem of moving vast quantities of data quickly and reliably within and between systems. A multitude of high-speed interface standards have evolved to solve the problem. Each of these new interface standards has its own features and benefits, addressing the issues of reliability, bandwidth, cost, and operating distance in different ways to suit different target applications. Consequently, the adoption of these interface standards has created the need for designers to implement interface bridging functions to connect incompatible interface standards. Actel's BridgeFPGA initiative is aimed at giving designers cost-effective and easy-to-use solutions to these interfacing problems.

As part of its BridgeFPGA initiative, Actel intends to partner with key IP providers and application specific standard product (ASSP) vendors to provide next-generation technology for interfaces. The first of these partnerships was also announced on May 14, 2001. Tality, a leading provider of IP, has teamed with Actel to develop FPGAs incorporating versatile, high-performance physical layer (PHY) communication interfaces. In addition, Actel has increased its participation in key interface standards associations.

BridgeFPGA products will provide designers with access to high-performance communications interfaces capable of supporting many standards due to the flexibility of the programmable logic. The initial BridgeFPGA device, which Actel expects to introduce in 2002, will incorporate Tality's 3.125 Gbps LVDS transceiver and a high-speed multimode serializer/deserializer, capabilities critical for many communications systems. Actel's BridgeFPGA programmable interface products are expected to also include a handful of highly flexible user-programmable devices that support multiple I/O capabilities (such as HSTL, LVPECL, and GTL+ in addition to 3.125 Gbps LVDS) and various embedded interface protocols (such as Ethernet, Fibre Channel, Infiniband, and RapidI/O).

Development Tools

The development tools offered by Actel include design software, device programmers, verification and debugging tools, and prototyping sockets. These tools are used in the Actel design flow, which includes design creation, design implementation, device programming, and system verification. Design software is used for design creation and implementation; programmers are used to program devices; and verification and debugging tools and prototyping sockets may be used for design and system verification.

Actel's Libero design environment integrates the design tools needed to provide schematic, HDL, and mixed schematic-HDL design flows. Actel's Designer tool is integrated with third-party schematic and HDL tools to implement and simulate Actel devices. Programmers execute instructions included in files obtained from Designer to program Actel FPGAs. Actel's Silicon Explorer II debugging and verification tool permits real-time probing of a programmed FPGA as it performs its functions at speed within a system, removing the guesswork typically associated with the process of system verification. Sockets allow designers to use antifuse FPGAs in prototype boards without the risk of damaging the board when replacing a chip.

Design Software

Actel is committed to providing design software integrated with existing electronic design automation (EDA) software and design flows. Actel works closely with its EDA partners through the Actel Alliance program to provide early technical information on new Actel releases so that Alliance members can offer timely support. The Alliance includes Aldec, Inc.; Cadence Design Systems, Inc. (Cadence); Innoveda, Inc. (Innoveda); Mentor Graphics Corp. (Mentor Graphics); SynaptiCAD, Inc. (SynaptiCAD); Synopsys, Inc. (Synopsys); and Synplicity, Inc. (Synplicity).

Libero

On June 18, 2001, Actel introduced Libero, its next-generation integrated design environment for FPGA development and design. A comprehensive design management environment, Libero integrates industry-leading design tools through a robust, easy-to-navigate graphical user interface; streamlines the design flow; manages all design, run, and report files; and passes necessary design data between tools. Actel's Libero design software includes Innoveda's DxViewDraw schematic capture tool; SynaptiCAD's WaveFormer Lite test bench generation system; Model Technology's ModelSim simulation and design verification software; Synplicity's Synplify synthesis software; and Actel's Designer place-and-route software.

The Libero tool suite supports all currently released Actel devices and is available in three versions: Platinum, Gold, and Silver. The Libero Platinum version is a complete tool suite with unlimited design capacity and customer support. A Libero Platinum evaluation version may be used for 45 days free of charge. It includes all the integrated tools, functionality, and power of Platinum without the programming capability. The Libero Gold version provides tool support for users designing system-level devices of 50,000 gates or less. The Libero Silver version offers tool support from entry to programming for Actel devices of 10,000 gates or less. The Libero Silver version does not include simulation, but designers may use their own simulator without restrictions or compatibility problems. Libero Silver is offered at no charge to qualified designers for one year.

On October 31, 2001, Actel announced that Libero had been enhanced to include support for mixed-mode design entry input, giving designers the choice of mixing either high-level VHDL or Verilog HDL language blocks with schematic modules within a design. This mixed-mode capability has become important as programmable logic design capacity increases and IP utilization and design reuse become essential.

On February 25, 2002, Actel announced that Libero supports Actel's ASIC-replacement ProASIC Plus flash-based FPGA family. Actel also announced the availability for the first time of the Libero Silver and Platinum evaluation versions as free downloads from the Actel Web site.

Designer

Designer is an interactive design implementation tool that allows designers to import a netlist generated from a third-party CAE tool, place and route (layout) the design, perform static timing analysis, extract timing information, and generate a programming file to program an Actel FPGA. The Designer tool supports all the established EDA standards and the industry's most popular synthesis, schematic, and simulation tools. The Designer tool is available in the same Platinum, Platinum evaluation, Gold, and Silver versions as Libero. Designer software allows user registration and automatic software updates through the Actel Web site.

After a design is imported by Designer and the device, package, and other operating conditions are specified, the design is compiled to check for design legality, optimize the netlist, and verify that the design fits into the selected device. If necessary, the designer can then optimize and customize the design with the User Tools before running layout. The User Tools include PinEdit, ChipEdit, ProASIC Layout Viewer, Timer, and Back-Annotate. PinEdit is a graphical interface that allows designers to view pin locations; manually assign, edit, and fix pin locations; and customize I/O attributes. ChipEdit is a graphical interface that allows designers to view a design's macro placement and edit the placement of both I/O and logic modules. For the ProASIC family, the ProASIC Layout Viewer displays the results of place-and-route. Timer is an interactive tool used for timing verification and to enter timing constraints. Back Annotate is used to extract timing delays from the post-layout data. These extracted delays are put into a file to be used by a third-party timing simulator.

Layout is the process of taking the netlist information and any constraints and mapping this information into the selected Actel device. Physical locations are assigned to unassigned I/O and logic modules (placement), routing tracks are assigned to nets (routing), and detailed delays are calculated for all paths (delay extraction). Designer supports two modes of layout, standard and timing-driven. Standard layout maximizes the average performance for all paths. With timing-driven layout, the primary goal is to meet delay constraints set in Timer or in a delay constraint file. Timing-driven layout is more precise and typically results in higher performance. If layout fails at any stage, Designer provides information that can be used to determine and correct the problem. Following layout, Designer generates the programming files.

Designer graphically displays the completed steps of the design implementation process, keeps track of the information required to begin each step, and prompts the designer through all of the necessary steps of the flow. Designer's pin, timing, status, and other reports provide frequently-used information in convenient formats. Designer includes ACTgen, a graphical macro generation tool that creates optimized logic elements that can be included in schematic and synthesis designs. Architecture-specific rules control the generation of the macros, so no logic verification is required. The Designer software also allows designers to run scripts in Tcl (Tool Command Language) for simple or complex tasks.

Device Programmers

All Actel FPGAs can be programmed by Silicon Sculptor programmers. Actel's flash FPGAs can also be programmed by the Flash Pro Programmer. In addition, Actel supports programmers offered by third parties, including BP Microsystems Inc., Data I/O Corporation, and System General Corporation.

Flash Pro

On January 7, 2002, Actel announced the availability of the Flash Pro programmer, which provides ISP for Actel's flash-based FPGA families. Designers can configure Actel's ProASIC and ProASIC Plus FPGAs using only the portable Flash Pro programmer and a cable connected to either the parallel or USB port of a PC. The low-cost Flash Pro programmer gives users access to the ISP capability of the new ProASIC Plus devices for in-the-field upgrades to communications, industrial, and avionics designs. The ISP feature uses the IEEE standard 1149.1 Joint Test Action Group (JTAG) interface, which permits devices to be programmed after they are mounted on a PCB, simplifies the handling of high pin-count devices, eliminates sockets, and allows higher board performance. Flash Pro also supports the JEDEC Standard Test and Programming Language (STAPL), which makes the programmer independent of any specific programming algorithms. The Flash Pro programmer will support new devices immediately upon release with a new STAPL file, eliminating the need to wait for programmer algorithm upgrades.

Silicon Sculptor

Actel offers single- and six-site versions of the Silicon Sculptor programmer. The compact size of the Silicon Sculptor permits designers to program Actel FPGAs from their desktop PC rather than in a lab. Up to 12 Actel devices can be concurrently programmed from a single PC by daisy chaining two six-site Silicon Sculptors together with an expansion cable. The six-site Silicon Sculptor, which is designed to meet the demands of high-volume production environments, programs devices independently to achieve the fastest possible programming times. A single adapter module can be used to program all Actel antifuse or flash devices within a package type, regardless of pinout.

Verification and Debugging Tools

Actel's Silicon Explorer II diagnostic and verification tool kit shortens the FPGA design verification process by rapidly isolating functional and timing problems. Silicon Explorer II enables control of the ActionProbe circuitry, a patented architectural feature built into all of Actel's antifuse devices that allows access to any internal node from selected external pins. Silicon Explorer II attaches to the standard COM port of a PC and can be used by designers to view all of the observable nets in a programmed FPGA, select specific nodes to probe, and observe signal activity for both probe outputs and up to 16 additional signals on the target system. Actel also offers Silicon Explorer II Lite, a less expensive version of Silicon Explorer II for customers who have invested in a logic analysis system. Silicon Explorer II Lite enables

internal node viewing and selection, but relies on an external scope or logic analyzer to display signal activity.

Prototyping Sockets

Actel offers a range of surface-mount sockets, which make it easier for designers to prototype their designs using Actel's antifuse FPGAs. By using these sockets when prototyping designs, designers can avoid having to desolder FPGAs from PCBs, which is time-consuming and can potentially damage the PCBs. Sockets are available in prototype quantities from Actel and in production quantities from Actel-qualified socket manufacturers.

VariCore EPGAs

On February 19, 2001, Actel introduced its new VariCore EPGA star IP cores for system-on-a-chip (SoC) applications. The VariCore EPGA cores are the first available commercial embeddable and reconfigurable "soft hardware" IP products broadly offered to the ASIC and ASSP market. VariCore EPGA cores help reduce design time and costs and increase SoC design flexibility, in part by enabling version variants of the same product. VariCore EPGA logic is a versatile and efficient embedded FPGA core architecture that provides scaleable reprogrammability for ASICs and ASSPs. These EPGA blocks have been designed in 0.18-micron SRAM technology. VariCore programmable logic is proven in silicon and three of the world's leading wafer foundries are supporting EPGA reprogrammable cores: UMC and TSMC in Taiwan and Chartered in Singapore. Pricing for VariCore EPGA cores will vary and follow the "star IP" sliding scale model of license plus royalties.

On May 21, 2001, Actel announced a joint effort in the area of embedded IP test with LogicVision, a leading provider of embedded test IP solutions. The companies will work together to offer a complete embedded self-test solution to users of Actel's VariCore EPGA IP cores. VariCore EPGA cores provide designers with the ability to add reconfigurability to ASIC and ASSP SoC applications. LogicVision's embedded test capability delivers testability throughout the design, manufacturing, and system phases of the product application on both conventional and low-cost testers.

On September 17, 2001, Actel announced that it had joined The Virtual Component Exchange (VCX) and will use the VCX IP supply chain software solution to market its VariCore EPGA cores. VCX TradeFloor tools link the engineering, procurement, and legal functions of buyers and sellers by internet with a common toolset and language. Alignment of data evaluation, access, and contracting protocols between buyers and sellers accelerates the speed of semiconductor IP transactions.

On December 3, 2001, Actel announced the creation of the VariCore Design Alliance, a worldwide program to train, certify, and support independent ASIC design services companies in the proficient use of Actel's VariCore EPGA IP cores. The program's goal is to provide SoC designers with the background and expertise necessary to integrate embedded FPGAs into complex system-level designs. Tality, the world's largest independent SoC design services and IP provider, signed on as the program's anchor member. On December 10, 2001, Actel announced the addition of six new members to the VariCore Design Alliance.

I P Cores

Through third party strategic relationships and internally developed IP, Actel offers cores targeted for the communications, consumer, industrial, and aerospace markets. The IP cores currently offered to Actel customers includes ten bus interface, fourteen communications, two peripheral component interface (PCI), and six processor and peripheral cores, all of which are available in either register transfer level (RTL) or netlist format. Currently, six cores are available for evaluation or licensing from Actel, eleven cores are available from Inicore AG (Inicore), and fifteen cores are available from Inventra, a division of Mentor Graphics. IP developed by Inicore and Inventra are licensed directly from them.

The architectures of Actel's flash- and antifuse-based FPGAs facilitate the porting of high-level IP cores, enabling system level integration. The secure nature of Actel's FPGAs means that IP can be safely integrated and guarded from reverse engineering or piracy. ProASIC FPGAs are user programmed with a multi-bit key that blocks external attempts to read or alter the configuration settings. Decapping and stripping of the ProASIC device reveals only the structure of the flash cell, not the contents. Antifuse FPGAs do not need a start-up bitstream, eliminating the possibility of configuration data being intercepted. The antifuses that form the interconnections within an Actel FPGA do not leave an observable signature that can be electrically probed or visually inspected. With these safeguards, Actel devices are almost impervious to copying and reverse engineering.

Services

Actel offers design and volume programming services. With Actel's acquisition of the Protocol Design Services Group from GateField in August 1998, Actel became the first FPGA provider to offer system-level design expertise to its customers. The Protocol Design Services organization operates out of a secure facility located in Mt. Arlington, New Jersey, and is certified to handle government, military, and proprietary designs. Actel also programs significant volumes of FPGAs each month for its customers. This makes Actel devices "virtual ASICs" from the customer's point of view.

Protocol Design Services

Actel's Protocol Design Services organization has a successful history providing hardware and software design services for companies throughout the world. It provides varying levels of design services to customers, including FPGA, ASIC, and system design; software development and implementation; and development of prototypes, first articles, and production units. The Design Services team has participated in the development of optical networks, routers, cellular phones, digital cameras, embedded DSP systems, automotive electronics, navigation systems, compilers, custom processors, and avionics systems.

Volume Programming

Actel offers high volume programming for all Actel device and package types in its state-of-the-art-programming center, which is located at the factory in Sunnyvale, California. Actel's facility is ISO-9002, PURE, QML, and STACK certified (see "BUSINESS — Manufacturing and Assembly"), permitting Actel to meet customer requirements for high-quality programmed

devices. Complete documentation and tractability are provided throughout the programming process, including first article approval. Volume programming charges are based on the type of device and quantity per order.

Market and Applications

In 2001, FPGAs accounted for 97% of Actel's net revenues, virtually all of which was derived from the sale of antifuse FPGAs. FPGAs can be used in a broad range of applications across nearly all electronic system market segments. Most customers use Actel's FPGAs in low to medium volumes in the final production form of their products. Some high-volume electronic system manufacturers use Actel FPGAs as a prototyping vehicle and convert production to lower-cost ASICs, while others with time-to-market constraints use Actel FPGAs in the initial production and then convert to lower-cost ASICs. As product life cycles continue to shorten, foundry capacity becomes more expensive, and manufacturing efficiencies for FPGAs increase, some high-volume electronic system manufacturers are electing to retain FPGAs in volume production because conversion to ASICs may not yield sufficiently attractive savings before the electronic system reaches the end of its life.

In general, Actel's antifuse FPGAs are appropriate for high-speed communications, military and space, computer, and consumer applications, and Actel's flash FPGAs are better suited for general communications, avionics, and industrial applications.

Communications

In 2001, communications accounted for an estimated 49% of Actel's net revenues. Increasingly complex equipment must frequently be designed to fit in the space occupied by previous product generations. In addition, the rapidly changing communications environment rewards short development times and early market entry. The high density, high performance, and low power consumption of antifuse FPGAs make them appropriate for use in high-speed communications equipment. The high capacity, low cost, low power consumption, and reprogrammability of flash FPGAs make them suitable for use in other communications applications. Representative customers of Actel in the communications market include: Alcatel; Cisco; Marconi; and Nortel.

On August 27, 2001, Actel announced that Ipsil will implement its IPMicro8932 chip within the eX family. Ipsil chose the eX family because of its small packaging, flexibility, performance, reliability, and security. Ipsil's IPMicro8932 chip also requires low power. IPMicro8932 is an enhanced transmission-control protocol controller with a 10BaseT Ethernet interface.

Military and Aerospace

In 2001, military and aerospace accounted for an estimated 26% of Actel's net revenues. Rigorous quality and reliability standards, stringent volume requirements, and the need for design security are characteristics of the military and aerospace market. Actel FPGAs have high quality and reliability and are almost impervious to copying and reverse engineering, making them appropriate for many military and aerospace applications. For these reasons, Actel is the world's leading supplier of military and aerospace PLDs. Representative customers of Actel in the military and aerospace market include: BAE; Boeing; Fairchild Semiconductor Corporation; Honeywell; and Lockheed Martin.

Actel's antifuse FPGAs are especially well suited for space applications, due to the high radiation tolerance of the antifuse and the Actel FPGA architecture. Actel's antifuse FPGAs were first designed into a space mission in 1991. Since then, thousands of Actel's programmable logic circuits have performed flight-critical functions aboard manned space vehicles, earth observation satellites, and deep-space probes. Actel's FPGAs often perform mission-critical functions on important scientific missions in space. They have, for example, been aboard numerous Mars exploration missions, were included in the controlling electronics for the Mars Pathfinder Rover, and are performing functions on the Hubbell Space Telescope. Actel participates in programs administered by the National Aeronautics Space Administration's (NASA's) Goddard, Johnson, and Marshall Space Flight Centers (including the Space Shuttle and the International Space Station) as well as programs at California Institute of Technology's Jet Propulsion Laboratory. However, Actel's success has not been limited to the United States. Today, Actel's FPGAs can be found on board and in spacecraft launched by virtually every civilian space agency around the world, including the European Space Agency and the Japanese National Space Development Agency.

On March 26, 2001, Actel announced that it had played a significant role in the Near Earth Asteroid Rendezvous (NEAR) Shoemaker mission, providing programmable logic that enabled mission managers to navigate the spacecraft to the surface of asteroid Eros and collect scientific data from the asteroid surface and surrounding environment. NASA's NEAR Shoemaker spacecraft was the first spacecraft ever to land, or even attempt to land, on an asteroid. Actel high-reliability FPGAs played an important role in the command, telemetry, and scientific data collection aspects of the mission.

Industrial

In 2001, industrial control and instrumentation applications accounted for an estimated 19% of Actel's net revenues. Industrial control and instrumentation applications often require complex electronic functions tailored to specific needs. FPGAs offer programmability and high density, making them attractive to this segment of the electronic equipment market. Representative customers of Actel in the industrial market include: Abbott Laboratories; Agilent Technologies, Inc.; GE Medical Systems; Siemens; Varian Medical Systems, Inc; and VISTA Controls.

On March 14, 2002, Actel announced that Silicon Recognition has chosen to implement a version of its zero instruction set computing (ZISC) solution with Actel's A500K050 and A500K130 ProASIC devices. Silicon Recognition's ZISC solution, a proprietary ASIC, is designed to provide the ultra-fast pattern recognition, information classification, and matching performance required for next-generation, real-time smart devices, such as security cameras and health-monitoring equipment.

Computer

In 2001, computer systems and peripherals accounted for an estimated 3% of Actel's net revenues. The computer systems market is intensely competitive, placing a premium on early market entry for new products. FPGAs reduce the time to market and facilitate early completion of production models so that development of hardware and software can occur in parallel. Representative customers of Actel in the computer market include: Analogic Corporation; Compaq; Dialogic Corporation; Matrox Graphics Inc.; Sensis Corporation; and Sky Computer.

On May 21, 2001, Actel announced that MARGI Systems, Inc., a leading provider of multimedia products for mobile computing, selected Actel's A54SX08A FPGA for the hardware module in its new "Presenter-to-Go" product. Presenter-to-Go enables business professionals to make PowerPoint presentations from a Handspring Visor without the use of a personal computer. Actel's SX-A family was selected for the Presenter-to-Go application due to the hot-swap compliant I/Os and the low-power features of the architecture.

On March 4, 2002, Actel announced that NetVision, a supplier of giant light-emitting diode (LED) screens, selected Actel's A54SX72A FPGA for NetVision's new Magitron range of giant color outdoor LEDs. The screens utilize SX-A FPGAs for display circuit control and color correction management. The Magitron circuit design specifications required a logic integration device that offered high performance, design security, and low power consumption.

Consumer

In 2001, consumer applications accounted for an estimated 3% of Actel's net revenues. The high performance, low power consumption, and low cost of antifuse FPGAs make them appropriate for use in products enabling the portability of the internet, or "e-appliances," and other high-volume electronic systems targeted for consumers. E-appliance applications include MP3 "music-off-the-internet" players, digital cable set-top boxes, DSL and cable modems, digital cameras, digital film, multimedia products, and smart-card readers. Like the computer market, the market for consumer and e-appliance products places a premium on early market entry for new products and is characterized by short product life cycles. Representative customers of Actel in the consumer market include: Datel, Inc.; Samsung; Sanyo; and Shinyoung Precision Co., Ltd.

On October 16, 2001, Actel announced a technology relationship with e.Digital Corp. that will allow e.Digital's proprietary design to be produced within Actel's eX FPGAs. e.Digital's new solution is designed to increase reliability and reduce the board space required for implementation of advanced digital voice and music recorder/player functionality in small portable devices, such as portable internet music players and personal digital jukeboxes.

Sales and Distribution

Actel maintains a worldwide, multi-tiered selling organization that includes a direct sales force, independent sales representatives, and electronics distributors. Actel's North American sales force consists of 50 sales and administrative personnel and field application engineers (FAEs) operating from 22 sales offices located in major metropolitan areas. Direct sales personnel call on target accounts and support direct original equipment manufacturers (OEMs). Besides overseeing the activities of direct sales personnel, Actel's sales managers also oversee the activities of 20 sales representative firms that operate from approximately 50 office locations. The sales representatives concentrate on selling to major industrial companies in North America. To service smaller, geographically dispersed accounts in North America, Actel has distributor agreements with Pioneer and Unique. Pioneer and Unique have approximately 39 and 28 offices in North America, respectively.

Actel generates a significant portion of its revenues from international sales. Sales to customers outside the United States accounted for 38% of net revenues in 2001. Sales to European customers accounted for 28% of net revenues in 2001. Actel's European sales organization consists of 22

employees operating from four sales offices and 11 distributors and sales representatives having approximately 23 offices (including Unique, which has seven offices in Europe). Sales to Japan and other international customers accounted for 10% of net revenues in 2001. Actel's Pan-Asia sales organization consists of seven employees operating from three sales offices and nine distributors and sales representatives having approximately 20 offices (including Unique, which has nine offices in Pan-Asia). Actel's International sales organization consists of two employees operating from two sales offices and four distributors and sales representatives (including Unique).

Actel's sales cycle for the initial sale of a design system is generally lengthy and often requires the ongoing participation of sales, engineering, and managerial personnel. After a sales representative or distributor evaluates a customer's logic design requirements and determines if there is an application suitable for Actel's FPGAs, the next step typically is a visit to the qualified customer by a regional sales manager or the FAE from Actel or its distributor. The sales manager or FAE may then determine that additional analysis is required by engineers based at Actel's headquarters.

Sales made through distributors accounted for 68% of Actel's net revenues in 2001. Pioneer and Unique accounted for 20% and 19%, respectively, of Actel's net revenues in 2001. Actel consolidated its distribution channel during 2001 by terminating Arrow Electronics, Inc. (Arrow), which accounted for 13% of Actel's net revenues in 2001. As is common in the semiconductor industry, Actel generally grants price protection to distributors. Under this policy, distributors are granted a credit upon a price reduction for the difference between their original purchase price for products in inventory and the reduced price. From time to time, distributors are also granted credit on an individual basis for an approved price reductions on specific transactions to meet competition. Actel also generally grants distributors limited rights to return products. To date, product returns under this policy have not been material. Actel maintains reserves against which these credits and returns are charged. Because of its price protection and return policies, Actel does not recognize revenue on products sold to distributors until the products are resold to end customers.

Backlog

At January 6, 2002, Actel's backlog was approximately $22.3 million, compared with approximately $44.4 million at December 31, 2000. Actel includes in its backlog all OEM orders scheduled for delivery over the next nine months and all distributor orders scheduled for delivery over the next six months. Actel sells standard products that may be shipped from inventory within a short time after receipt of an order. Actel's business, and to a large extent that of the entire semiconductor industry, is characterized by short-term order and shipment schedules rather than volume purchase contracts. In accordance with industry practice, Actel's backlog may be cancelled or rescheduled by the customer on short notice without significant penalty. As a result, Actel's backlog may not be indicative of actual sales and therefore should not be used as a measure of future revenues.

Customer Service and Support

Actel believes that superior customer service and technical support are essential for success in the FPGA market. Actel facilitates service and support through service team meetings that address particular aspects of the overall service strategy and support. The most significant areas of customer service and technical support are regularly measured. Actel's customer service organization emphasizes prompt, accurate responses to questions about product delivery and order status.

Actel's FAEs located in Canada, England, France, Hong Kong, Italy, Japan, and the United States provide technical support to customers worldwide. This network of experts is augmented by FAEs working for Actel's sales representatives and distributors throughout the world. Customers in any stage of design can also obtain assistance from Actel's technical support hotline or the online interactive automated technical support system. In addition, Actel offers technical seminars on its products and comprehensive training classes on its software.

Actel generally warrants that its FPGAs will be free from defects in material and workmanship for one year, and that its software will conform to Actel's published specifications for 90 days. To date, Actel has not experienced significant warranty returns.

Manufacturing and Assembly

Actel's strategy is to utilize third-party manufacturers for its wafer requirements, which permits Actel to allocate its resources to product design, development, and marketing. Wafers used in Actel's FPGAs are manufactured by BAE in Manassas, Virginia; by Chartered in Singapore; by Infineon in Germany; by MEC in Japan; by UMC in Taiwan; and by Winbond in Taiwan. Actel's FPGAs in production are manufactured by BAE using 0.8-micron design rules; by Chartered using 0.6-, 0.45-, and 0.35-micron design rules; by Infineon using 0.25-micron design rules; by MEC using 1.0-, 0.9-, 0.8-, and 0.25-micron design rules; by UMC using 0.22-micron design rules; and by Winbond using 0.8- and 0.45-micron design rules.

Wafers purchased by Actel from its suppliers are assembled, tested, marked, and inspected by Actel and/or a subcontractor of Actel before shipment to customers. Actel assembles most of its plastic commercial products in Hong Kong, Korea, and Singapore. Hermetic package assembly, which is often required for military applications, is performed at one or more subcontractor manufacturing facilities, some of which are in the United States.

Actel is committed to continuous improvement in its products, processes, and systems and to conforming its quality and reliability systems to internationally recognized standards and requirements. Actel is ISO 9002, QML, STACK, and PURE certified. ISO 9002 and QML certification are granted by the Defense Supply Center, Columbus, Ohio (DSCC). ISO certification provides a globally recognized benchmark that Actel's devices have been certified for integrity in the manufacturing and test process. QML certification confirms that Actel has an approved quality system and control of its processes and procedures according to the standards set forth in the MIL-PRF-38535. In addition, many suppliers of microelectronic components have implemented QML as their primary worldwide business standard. STACK International members consist of a distinguished worldwide group of major electronic equipment manufacturers serving the high-reliability and communications markets. Certification as a STACK International supplier confirms that Actel's standard qualification procedure and product monitor program and manufacturing process meet or exceed the required specification. PURE, which stands for PEDs (plastic encapsulated devices) Used in Rugged Environments, is an association of European equipment makers dedicated to quality and reliability. Actel's PURE certification is for plastic quad flat pack packages.

On May 29, 2001, Actel announced the availability of new chip-scale (CS) packages for the eX family of FPGAs. The eX products were already utilized in portable designs due to the family's small packaging and low power features. The new CS packages provided the smallest footprint in the industry

for devices of comparable density. On January 28, 2002, Actel announced the availability of lead-free packaging options for the ProASIC, eX, and SX-A FPGA families. The new lead-free packages offer environment-friendly alternatives to standard lead-based packages at the same prices.

Strategic Relationships

Actel enjoys ongoing strategic relationships with its customers, distributors and sales representatives, and foundries, assembly houses, and other suppliers of goods and services, including the following:

Chartered

On August 28, 2001, Actel announced the availability of its SRAM-based VariCore EPGA IP cores on the 0.18-micron process from Chartered. VariCore EPGA IP cores are targeted for use in ASIC and ASSP SoC devices to help speed products to market and increase the life of those products once in the market. See "BUSINESS — Products and Services — VariCore EPGAs." VariCore EPGAs are available for license by Actel directly to Chartered customers.

Faraday Technology Corporation (Faraday)

On September 10, 2001, Actel and Faraday announced a low-risk, cost-effective conversion path from current and future generations of Actel's single-chip, flash-based ProASIC FPGAs to standard cell ASICs using a standard cell CMOS process. Compared with a masked-PLD (MPLD) or conventional gate array migration process, standard cell ASICs offer higher densities and reduced costs. The new conversion path allows companies to take products to market quickly and then lower the system cost without taking the risks typically associated with ASIC design conversions.

First Silicon Solutions (FS2)

On January 7, 2002, Actel and FS2 announced the availability of the Flash Pro programmer, which provides ISP for Actel's flash-based ProASIC FPGA families, including the new ProASIC Plus family. See "BUSINESS — Products and Services — Development Tools — Programmers — Flash Pro." FS2, working closely with Actel, delivered a complete programming solution that gives designers access to an ISP ASIC-alternative when designing complex applications for the industrial, communications, networking, and avionics markets.

Mentor Graphics and Model Technology

On July 2, 2001, Actel and Model Technology, a Mentor Graphics company, announced an OEM agreement to provide Actel customers with ModelSim, a leading language-neutral simulation tool. Actel integrates ModelSim into Libero, allowing customers to easily access the simulation tool when developing and designing Actel FPGAs. See "BUSINESS — Products and Services — Development Tools — Design Software — Libero." On January 7, 2002, Actel and Mentor Graphics announced that Mentor's LeonardoSpectrum synthesis tool supports Actel's new ProASIC Plus family of flash-based FPGAs. LeonardoSpectrum offers optimization and technology mapping of HDL designs to architecture-specific resources in ProASIC Plus devices.

Synopsys

On May 30, 2001, Actel announced that Synopsys' Design Compiler synthesis tool supports Actel's ProASIC 500K devices. The addition of Design Compiler libraries to the ProASIC design kit enables ASIC designers to work within Synopsys' ASIC synthesis environment while leveraging the benefits of Actel's reprogrammable ProASIC devices, including shorter and more efficient design cycles. On January 7, 2002, Actel announced that Synopsys' Design Compiler synthesis tool supports Actel's new ProASIC Plus family of flash-based FPGAs.

Synplicity

On April 12, 2000, Actel and Synplicity announced the renewal of their long-term strategic alliance by signing a multi-year OEM agreement. Under the terms of the five-year agreement, Actel will bundle Synplicity's Synplify FPGA synthesis software into its development tools. See "BUSINESS — Products and Services — Development Tools — Design Software — Libero." As a result, designers using Actel devices will continue to have access to the performance and quality of results offered by Synplicity's FPGA synthesis software. On January 7, 2002, Actel and Synplicity announced optimized support in Synplicity's Synplify software products for Actel's new ProASIC Plus family. Synplicity's Synplify product performs technology mapping of HDL-based designs directly into ProASIC Plus devices.

Tality

On May 14, 2001, Actel and Tality, a subsidiary of Cadence, announced a strategic technology partnership that will result in the development of technology aimed at the high-speed communications market. Actel and Tality, the largest provider of IP and engineering services, are leveraging Actel's FPGA devices to develop products incorporating versatile PHY communication interfaces. *This agreement supports Actel's BridgeFPGA corporate initiative, under which Actel will deliver next-generation communications interface solutions optimized to meet designers' increasing bridging requirements. See "BUSINESS — Products and Services — FPGAs — BridgeFPGAs."*

UMC

On February 19, 2001, Actel announced that it had joined UMC's Gold IPSM program with Actel's VariCore EPGA star IP cores. See "BUSINESS — Products and Services — VariCore EPGAs." Concurrently, Actel taped out a VariCore EPGA IP test chip in UMC's 0.18-micron fab in Taiwan. VariCore IP is the first complete (front end to back end), commercially available product of its kind in 0.18-micron technology. VariCore EPGAs are available for license by Actel directly to UMC customers.

Research and Development

In 2001, Actel spent $38.2 million on research and development, which represented 29% of net revenues. Actel's research and development expenditures are divided among circuit design, software development, and process technology activities, all of which are involved in the development of new products based on existing or emerging technologies. In the areas of circuit design and process technology, Actel's research and development activities also involve continuing efforts to reduce the cost and improve the performance of current products, including "shrinks" of the design rules under which

such products are manufactured. Actel's software research and development activities include enhancing the functionality, usability, and availability of high-level CAE tools and IP cores in a complete and automated desktop design environment on popular PC and workstation platforms.

During 2001, Actel introduced embeddable reprogrammable EPGA logic cores based on SRAM technology. See "BUSINESS — Products and Services — VariCore EPGAs." Actel also announced its next-generation antifuse products. See "BUSINESS — Products and Services — FPGAs — BridgeFPGAs" and "BUSINESS — Strategic Partners — Tality." Actel publicly disclosed in 2001 that it was also working on next-generation flash and high reliability products, but provided no details regarding those research and development projects.

Competition

The FPGA market is highly competitive, and Actel expects that competition will continue to increase as the market grows. Actel's competitors include suppliers of standard TTLs and custom-designed ASICs, including conventional gate arrays, standard cells, simple PLDs, CPLDs, and FPGAs. Of these, Actel competes principally with suppliers of conventional gate arrays, standard cells, CPLDs, and FPGAs.

The primary advantages of conventional gate arrays and standard cells are high capacity, high density, high speed, and low cost in production volumes. Actel competes with conventional gate array and standard cell suppliers by offering lower design costs, shorter design cycles, and reduced inventory risks. However, some customers elect to design and prototype with Actel's products and then convert to conventional gate arrays or standard cells to achieve lower costs for volume production. For this reason, Actel also faces competition from companies that specialize in converting CPLDs and FPGAs, including Actel products, into conventional gate arrays or standard cells.

Actel also competes with suppliers of CPLDs. Suppliers of these devices include Altera Corporation (Altera) and Lattice-Vantis Semiconductor Corporation (Lattice). The circuit architecture of CPLDs may give them a performance advantage in certain lower capacity applications, although Actel believes that its FPGAs compete favorably with CPLDs. However, Altera and Lattice are larger than Actel, offer broader product lines to more extensive customer bases, and have significantly greater financial, technical, sales, and other resources. In addition, many newer CPLDs are reprogrammable, which permits customers to reuse a circuit multiple times during the design process. While Actel's flash FPGAs are reprogrammable, antifuse FPGAs are OTP, permanently retaining their programmed configuration. No assurance can be given that Actel will be able to overcome these competitive disadvantages.

Actel competes most directly with established FPGA suppliers, such as Xilinx, Inc. (Xilinx), Altera, and Lattice (which purchased the FPGA business of Agere Systems, Inc. in 2002). While Actel believes its products and technologies are superior to those of Xilinx (as well as Altera and Lattice) in many applications requiring greater speed, lower cost, nonvolatility, lower power, and/or greater security, Xilinx is significantly larger than Actel, offers a broader product line to a more extensive customer base, and has substantially greater financial, technical, sales, and other resources. In addition, the FPGAs of Xilinx, Altera, and Lattice are reprogrammable. No assurance can be given that Actel will be able to overcome these competitive disadvantages.

Several companies have marketed antifuse-based FPGAs, including QuickLogic Corporation (QuickLogic). In 1995, Actel acquired the antifuse FPGA business of TI, which was the only second-source supplier of Actel products. Xilinx, which is a licensee of certain Actel patents, introduced antifuse-based FPGAs in 1995 and abandoned its antifuse FPGA business in 1996. Cypress Semiconductor Corporation, which was a licensed second source of QuickLogic, sold its antifuse FPGA business to QuickLogic in 1997. Actel believes that it compete favorably with QuickLogic, which is also a licensee of certain Actel patents. See "BUSINESS — Patents and Licenses."

Actel believes that important competitive factors in its market are price; performance; capacity (total number of usable gates); density (concentration of usable gates); ease of use and functionality of development tools; installed base of development tools; reprogrammability; strength of sales organization and channels; adaptability of products to specific applications and IP; ease, speed, cost, and consistency of programming; length of research and development cycle (including migration to finer process geometries); number of I/Os; reliability; security; wafer fabrication and assembly capacity; availability of packages, adapters, sockets, programmers, and IP; technical service and support; and utilization of intellectual property laws. Failure of Actel to compete successfully in any of these or other areas could have a materially adverse effect on its business, financial condition, or results of operations.

Patents and Licenses

As of March 31, 2002, Actel had 192 United States patents and applications pending for an additional 56 United States patents. Actel also had 50 foreign patents and applications pending for 122 patents outside the United States. Actel's patents cover, among other things, Actel's basic circuit architecture, antifuse structure, and programming method. Actel expects to continue filing patent applications as appropriate to protect its proprietary technologies. Actel believes that patents, along with such factors as innovation, technological expertise, and experienced personnel, will become increasingly important.

On March 29, 2001, Unisys Corporation (Unisys) brought suit in the United States District Court for the Northern District of California, San Jose Division (Court), against Actel seeking monetary damages and injunctive relief. Actel and Unisys orally agreed to settle the case on April 25, 2001, and executed a definitive written settlement agreement on June 29, 2001. The Court dismissed the case with prejudice on July 13, 2001. The settlement was immaterial to Actel's business, financial condition, and operating results.

In connection with the settlement of patent litigation in 1993, Actel and Xilinx entered into a Patent Cross License Agreement (Xilinx Agreement), under which Xilinx was granted a license under certain Actel patents that permits Xilinx to make and sell antifuse-based PLDs, and Actel was granted a license under certain Xilinx patents to make and sell SRAM-based PLDs. In 1996, Xilinx discontinued its antifuse-based FPGA product line.

In 1995, Actel and BTR, Inc. (BTR) entered into a License Agreement pursuant to which BTR licensed its proprietary technology to Actel for development and use in FPGAs and certain multichip modules. As partial consideration for the grant of the license, Actel pays to BTR non-refundable advance royalties. Actel has also employed the principals of BTR to assist Actel in its development and implementation of the licensed technology.

In connection with the settlement of patent litigation in 1998, Actel and QuickLogic entered into a Patent Cross License Agreement that protects the products of both companies that were first offered for sale on or before September 4, 2000, or that are future generations of such products reflecting the evolution of such products in the ordinary course of business. In 1998, Actel also entered into a patent litigation settlement agreement with the Lemelson Medical, Education & Research Foundation.

As is typical in the semiconductor industry, Actel has been and expects to be notified from time to time of claims that it may be infringing patents owned by others. During 2001, Actel held discussions regarding potential patent infringement issues with several third parties, some of which have significantly greater financial and intellectual property resources than Actel. When probable and reasonably estimable, Actel has made provision for the estimated settlement costs of claims for alleged infringement. The provision is based on an estimated royalty rate applied to shipments made in the periods and to or from the geographic areas under dispute. In the absence of facts or circumstances unique to a particular dispute, the royalty rate is estimated based on Actel's understanding of royalty rates other technology companies typically agree to pay in similar types of disputes. As it has in the past, Actel may obtain licenses under patents that it is alleged to infringe. While Actel believes that reasonable resolution will occur, there can be no assurance that these claims will be resolved or that the resolution of these claims will not have a materially adverse effect on Actel's business, financial condition, or results of operations. In addition, Actel's evaluation of the impact of these pending disputes could change based upon new information learned by Actel. *Subject to the foregoing, Actel does not believe that any pending patent dispute is likely to have a materially adverse effect on Actel's business, financial condition, or results of operations.*

Employees

At the end of 2001, Actel had 521 regular employees, including 143 in marketing, sales, and customer support; 167 in research and development; 157 in operations; 17 in Protocol Design Services; and 37 in administration and finance. Net revenues were approximately $279,000 per employee for 2001. Actel has no employees represented by a labor union, has not experienced any work stoppages, and believes that its employee relations are satisfactory.

On May 25, 2001, Actel announced that its Board of Directors had approved a voluntary stock option exchange program. Under the program, eligible employees were given the opportunity to cancel options outstanding on June 29, 2001, in exchange for the grant of a new stock option six months and one day later. Approximately 510,000 stock options were granted to employees under the stock option exchange program at an exercise price of $19.91, the closing price of Actel Common Stock on December 31, 2001. The weighted average exercise price of the options cancelled in the exchange program was $35.23.

On August 7, 2001, Actel announced the promotion of Jon Anderson to Vice President of Finance and Chief Financial Officer. Formerly the corporate controller, Mr. Anderson joined Actel's executive management team and reports directly to John East, Actel's President and CEO. Mr. Anderson replaced Hank Perret, who accepted the CFO position with a private company located in Austin, Texas. Mr. Perret has family in Austin and was employed there prior to joining Actel in 1996.

Risk Factors

Shareholders of Actel and prospective investors should carefully consider, along with the other information in this Annual Report on Form 10-K, the following risk factors:

"Blank Check" Preferred Stock; Change in Control Arrangements

Actel's Articles of Incorporation authorize the issuance of up to 5,000,000 shares of "blank check" Preferred Stock (of which 4,000,000 shares remain available for issuance) with such designations, rights, and preferences as may be determined from time to time by the Board of Directors. Accordingly, the Board is empowered, without approval by holders of Actel's Common Stock, to issue Preferred Stock with dividend, liquidation, redemption, conversion, voting, or other rights that could adversely affect the voting power or other rights of the holders of the Common Stock. Issuance of Preferred Stock could be used as a method of discouraging, delaying, or preventing a change in control of Actel. In addition, such issuance could adversely affect the market price of the Common Stock. Although Actel does not currently intend to issue any additional shares of its Preferred Stock, there can be no assurance that it will not do so in the future.

Actel has adopted an Employee Retention Plan that provides for payment of a benefit to Actel's employees who hold unvested stock options in the event of a change of control of Actel. Payment is contingent upon the employee remaining with Actel or its successor for six months after the change of control (unless the employee is terminated other than for cause during such six-month period). Actel and each of its executive officers have also entered into a Management Continuity Agreement, which provides for the acceleration of stock options unvested at the time of a change of control in the event the executive officer's employment is actually or constructively terminated other than for cause following the change of control. While these arrangements are intended to make executive officers and other employees neutral toward a potential change of control, they could have the effect of biasing some or all executive officers or employees in favor of a change of control.

Competition

The semiconductor industry is intensely competitive and is characterized by rapid rates of technological change, product obsolescence, and price erosion. Actel's existing competitors include suppliers of conventional gate arrays, standard cells, CPLDs, and FPGAs. Actel's principal competitors are Xilinx, a supplier of SRAM-based FPGAs; Altera, a supplier of CPLDs and SRAM-based FPGAs; Lattice, a supplier of CPLDs and SRAM-based FPGAs; and QuickLogic, a supplier of antifuse-based FPGAs. Actel also faces competition from companies that specialize in converting FPGAs, including Actel's products, into conventional gate arrays or standard cells. See "BUSINESS — Competition."

All existing FPGAs not based on antifuse technology and certain CPLDs are reprogrammable, a feature that makes them more attractive to designers. See "BUSINESS — Risk Factors — One-Time Programmability (OTP)." In addition, Actel's antifuse FPGAs and (to a lesser extent) flash FPGAs are manufactured using customized steps that are added to the otherwise standard manufacturing processes of independent wafer suppliers. As a result, Actel's products typically have been fabricated using processes one or two generations behind the processes used by competing products. As a consequence, Actel generally has not fully realized the benefits of its technologies. Actel is attempting to accelerate the rate at which its products are migrated to finer process geometries and is working with its wafer

suppliers to obtain earlier access to advanced processes, but no assurance can be given that Actel will be able to overcome these competitive disadvantages.

Actel also believes that companies with broader product lines, more extensive customer bases, and greater financial and other resources may be in a stronger competitive position than Actel. Many of Actel's current competitors have broader product lines, more extensive customer bases, and significantly greater financial, technical, manufacturing, and marketing resources than Actel. Additional competition is possible from major domestic and international semiconductor suppliers. All such companies are larger and have broader product lines, more extensive customer bases, and substantially greater financial and other resources than Actel, including the capability to manufacture their own wafers. Additional competition could adversely affect Actel's business, financial condition, or results of operations.

Actel may also face competition from suppliers of logic products based on new or emerging technologies. While Actel seeks to monitor developments in existing and emerging technologies, no assurance can be given that Actel will be able to compete successfully with suppliers offering products based on new or emerging technologies. In any event, given the intensity of the competition and the research and development efforts being conducted, no assurance can be given that Actel's technologies will remain competitive.

Customer Concentration

A small number of customers are responsible for a significant portion Actel's net revenues. Actel has experienced periods in which sales to its major customers fluctuated as a percentage of net revenues due to push-outs or cancellations of orders, or delays or failures to place expected orders. Actel believes that sales to a limited number of customers will continue to account for a substantial portion of net revenues in future periods. The loss of a major customer, or decreases or delays in shipments to major customers, could have a materially adverse effect on Actel's business, financial condition, or results of operations.

Dependence on Communications Customers

Actel estimates that sales of its products to customers in the communications market accounted for 49% of net revenues for 2001, compared with 56% of net revenues for 2000. At various times, the communications market has experienced economic downturns, which have been characterized by diminished product demand, accelerated erosion of average selling prices, and production overcapacity. Since the fourth quarter of 2000, the communications market has endured perhaps its worst downturn ever. As a result, Actel has experienced, and may again in the future experience, substantial period-to-period fluctuations in operating results due to conditions in the communications market or the general economy.

Dependence on Customized Manufacturing Processes

Actel's antifuse-based FPGAs and, to a lesser extent, flash-based ProASIC FPGAs are manufactured using customized steps that are added to otherwise standard manufacturing processes of independent wafer suppliers. There is considerably less operating history for the customized process steps than for the foundries' standard manufacturing processes. The dependence of Actel on customized processing steps means that, in contrast with competitors using standard manufacturing processes, Actel

generally has more difficulty establishing relationships with independent wafer manufacturers; takes longer to qualify a new wafer manufacturer; takes longer to achieve satisfactory, sustainable wafer yields on new processes; may experience a higher incidence of production yield problems; must pay more for wafers; and generally will not obtain early access to the most advanced processes. Any of the above factors could be a material disadvantage against competitors using standard manufacturing processes. As a result of these factors, Actel's products typically have been fabricated using processes one or two generations behind the processes used by competing products. As a consequence, Actel generally has not fully realized the benefits of its technologies. Actel is attempting to accelerate the rate at which its products are reduced to finer geometries and is working with its wafer suppliers to obtain earlier access to advanced processes, but no assurance can be given that such efforts will be successful or that Actel will be able to overcome these competitive disadvantages.

Dependence on Design Wins

In order for Actel to sell an FPGA to a customer, the customer must incorporate the FPGA into the customer's product in the design phase. Actel therefore devotes substantial resources, which it may not recover through product sales, in support of potential customer design efforts (including, among other things, providing development tools) and to persuade potential customers to incorporate Actel's FPGAs into new or updated products. These efforts usually precede by many months (and often a year or more) the generation of FPGA sales, if any, by Actel. The value of any design win, moreover, will depend in large part upon the ultimate success of the customer's product. No assurance can be given that Actel will win sufficient designs or that any design win will result in significant revenues.

Dependence on Independent Assembly Subcontractors

Actel relies primarily on foreign subcontractors for the assembly and packaging of its products and, to a lesser extent, for the testing of its finished products. Actel generally relies on one or two subcontractors to provide particular services and has from time to time experienced difficulties with the timeliness and quality of product deliveries. Actel has no long-term contracts with its subcontractors and certain of those subcontractors sometimes operate at or near full capacity. There can be no assurance that these subcontractors will continue to be able or willing to meet Actel's requirements for components or services. Any significant disruption in supplies from, or degradation in the quality of components or services supplied by, these subcontractors could delay shipments and result in the loss of customers or revenues or otherwise have a materially adverse effect on Actel's business, financial condition, or results of operations.

Dependence on Independent Software and Hardware Developers

Actel is dependent on independent software and hardware developers for the development, maintenance, and support of certain elements of its development tools, IP cores, debugging and verification tools, device programmers, and sockets. Actel's reliance on independent software and hardware developers involves certain risks, including lack of control over development and delivery schedules and the availability of customer support. No assurance can be given that Actel's independent developers will be able to complete software and/or hardware under development, or provide updates or customer support in a timely manner, which could delay future software or FPGA releases and disrupt Actel's ability to provide customer support services. Any significant delays in the availability of Actel's software and/or hardware could be detrimental to the capability of Actel's new families of products to

win designs, delay shipments and result in the loss of customers or revenues, or otherwise have a materially adverse effect on Actel's business, financial condition, or results of operations.

Dependence on Independent Wafer Manufacturers

Actel does not manufacture any of the wafers used in the production of its FPGAs. Such wafers are manufactured by BAE in the United States, Chartered in Singapore, MEC in Japan, UMC in Taiwan, and Winbond in Taiwan. Actel's reliance on independent wafer manufacturers to fabricate its wafers involves significant risks, including the risk of events limiting production and reducing yields, such as technical difficulties or damage to production facilities; lack of control over capacity allocation and delivery schedules; and lack of adequate capacity.

Actel has from time to time experienced delays in obtaining wafers from its foundries, and no assurance can be given that Actel will not experience similar or more severe delays in the future. In addition, although Actel has supply agreements with several of its wafer manufacturers, a shortage of raw materials or production capacity could lead any of Actel's wafer suppliers to allocate available capacity to customers other than Actel, or to internal uses, which could interrupt Actel's capability to meet its product delivery obligations. Any inability or unwillingness of Actel's wafer suppliers to provide adequate quantities of finished wafers to satisfy Actel's needs in a timely manner would delay production and product shipments and could have a materially adverse effect on Actel's business, financial condition, or results of operations.

If Actel's current independent wafer manufacturers were unable or unwilling to manufacture Actel's products as required, Actel would have to identify and qualify additional foundries. The qualification process typically takes one year or longer. No assurance can be given that any additional wafer foundries would become available or be able to satisfy Actel's requirements on a timely basis or that qualification would be successful. In addition, the semiconductor industry has from time to time experienced shortages of manufacturing capacity. To secure an adequate supply of wafers, Actel has considered, and continues to consider, various possible transactions, including the use of substantial nonrefundable deposits to secure commitments from foundries for specified levels of manufacturing capacity over extended periods, equity investments in exchange for guaranteed production, and the formation of joint ventures to own foundries. No assurance can be given as to the effect of any such transaction on Actel's business, financial condition, or results of operations.

Dependence on International Operations

Actel purchases almost all of its wafers from foreign foundries and has almost all of its commercial products assembled, packaged, and tested by subcontractors located outside the United States. These activities are subject to the uncertainties associated with international business operations, including trade barriers and other restrictions, changes in trade policies, foreign governmental regulations, currency exchange fluctuations, reduced protection for intellectual property, war and other military activities, terrorism, changes in political or economic conditions, and other disruptions or delays in production or shipments, any of which could have a materially adverse effect on Actel's business, financial condition, or results of operations.

In order to expand international sales and service, Actel will need to maintain and expand existing foreign operations or establish new foreign operations. This entails hiring additional personnel

and maintaining or expanding existing relationships with international distributors and sales representatives. This will require significant managerial attention and financial resources and could adversely affect Actel's financial condition and operating results. No assurance can be given that Actel will be successful in its maintenance or expansion of existing foreign operations, in its establishment of new foreign operations, or in its efforts to maintain or expand its relationships with international distributors or sales representatives.

Dependence on Key Personnel

The success of Actel is dependent in large part on the continued service of its key managerial, engineering, marketing, sales, and support employees. Competition for qualified personnel is intense in the semiconductor industry, and the loss of Actel's key employees, or the inability of Actel to attract other qualified personnel, could have a materially adverse effect on Actel.

Dependence on Military and Aerospace Customers

Actel estimates that sales of its products to customers in the military and aerospace industries, which carry higher overall gross margins than sales of products to other customers, accounted for 26% of net revenues for 2001. In general, Actel believes that the military and aerospace industries have accounted for a significantly greater percentage of Actel's net revenues since the introduction of RadHard FPGAs in 1996 and of RadTolerant FPGAs in 1998. No assurance can be given that future sales to customers in the military and aerospace industries will continue at current volume or margin levels.

In 1994, Secretary of Defense William Perry directed the Department of Defense to avoid government-unique requirements when making purchases and rely more on the commercial marketplace. Under the "Perry initiative," the Department of Defense must strive to increase access to commercial state-of-the-art technology and facilitate the adoption by its suppliers of business processes characteristic of world-class suppliers. Integration of commercial and military development and manufacturing facilitates the development of "dual-use" processes and products and contributes to an expanded industrial base that is capable of meeting defense needs at lower costs. To that end, many of the cost-driving specifications that have been part of military procurements for many years were cancelled in the interest of buying best-available commercial products. If this trend toward the use of commercial off-the-shelf products continues, it may erode the revenues and/or margins that Actel derives from sales to customers in the military and aerospace industries, which could have a materially adverse effect on Actel's business, financial condition, or results of operations.

The Strom Thurmond National Defense Authorization Act for 1999 required, among other things, that communications satellites and related items (including components) be controlled on the U.S. Munitions List. The effect of the Act was to transfer jurisdiction over commercial communications satellites from the Department of Commerce to the Department of State and to expand the scope of export licensing applicable to commercial satellites. The need to obtain additional export licenses has caused significant delays in the shipment of some of Actel's FPGAs. Actel does not believe that this will have a long-term adverse effect on its business, although significant delays might cause some customers to seek an alternative solution.

Orders from the military and aerospace customers tend to be large and irregular, which creates operational challenges and contributes to fluctuations in Actel's net revenues and gross margins. These sales are also subject to more extensive governmental regulations, including greater import and export restrictions. In addition, products for military and aerospace applications require processing and testing that is more lengthy and stringent than for commercial applications, which increases the complexity of scheduling and forecasting as well as the risk of failure. It is often not possible to determine before the end of processing and testing whether products intended for military or aerospace applications will fail and, if they do fail, a significant period of time is often required to process and test replacements. This makes it difficult to accurately estimate quarterly revenues and can have a materially adverse effect on Actel's business, financial condition, or results of operations.

Dividend Policy

Actel has never declared or paid any cash dividends on its capital stock. Actel intends to retain any earnings for use in its business and does not anticipate paying any cash dividends in the future.

Fluctuations in Operating Results

Actel's quarterly and annual operating results are subject to fluctuations resulting from general economic conditions and a variety of risks specific to Actel or characteristic of the semiconductor industry, including booking and shipment uncertainties, supply problems, and price erosion. Any of these factors make it difficult to accurately project quarterly revenues and other operating results and can have a materially adverse effect on Actel's business, financial condition, or results of operations.

Booking and Shipment Uncertainties

Actel typically generates a large percentage of its quarterly revenues from orders received during the quarter and shipped in the final weeks of the quarter, making it difficult to accurately project quarterly revenues. Actel's backlog (which may be cancelled or deferred by customers on short notice without significant penalty) at the beginning of a quarter accounts for only a fraction of Actel's revenues during the quarter. This means that Actel generates the rest of its quarterly revenues from orders received during the quarter and "turned" for shipment within the quarter, and that any shortfall in "turns" orders will have an immediate and adverse impact on quarterly revenues. There are many factors that can cause a shortfall in "turns" orders, including but not limited to a decline in general economic conditions or the businesses of end users, excess inventory in the channel, conversion to conventional gate arrays, or the loss of business to other competitors for price or other reasons.

Historically, Actel shipped a disproportionately large percentage of its quarterly revenues in the final weeks of the quarter. While quarterly shipments have been more linear in recent years, any failure by Actel to effect scheduled shipments by the end of the quarter can have a materially adverse effect on revenues for such quarter. It is often impossible to determine before the end of processing and testing whether products intended for military or aerospace applications can be shipped and, if not, a significant period of time is often required to process and test replacements. Since Actel does not recognize revenue on the sale of a product to a distributor until the distributor resells the product, Actel's quarterly revenues are also dependent on, and subject to fluctuations in, shipments by Actel's distributors. When there is a shortfall in

revenues, operating results are likely to be adversely affected because most of Actel's expenses do not vary with revenues.

Supply Problems

In a typical semiconductor manufacturing process, silicon wafers produced by a foundry are sorted and cut into individual die, which are then assembled into individual packages and tested. The manufacture, assembly, and testing of semiconductor products is highly complex and subject to a wide variety of risks, including defects in masks, impurities in the materials used, contaminants in the environment, and performance failures by personnel and equipment. Semiconductor products intended for military and aerospace applications are particularly susceptible to these risks.

As is common in the semiconductor industry, Actel's independent wafer suppliers from time to time experience lower than anticipated yields of usable die. To the extent yields of usable die decrease, the average cost to Actel of each usable die increases, which reduces gross margin. Wafer yields can decline without warning and may take substantial time to analyze and correct, particularly for a company such as Actel that does not operate its own manufacturing facility, but instead utilizes independent facilities, almost all of which are offshore. Yield problems may also increase the time to market for Actel's products and create inventory shortages and dissatisfied customers. No assurance can be given that Actel will not experience wafer supply problems in the future.

In addition, Actel typically experiences difficulties and delays in achieving satisfactory, sustainable yields on new processes or at new foundries, particularly when new technologies are involved. For example, Actel and GateField struggled for years to achieve acceptable yields on the flash process for ProASIC devices at Infineon. Although Actel has been able to overcome these difficulties in the past, no assurance can be given that it will be able to do so with respect to any new process or foundry.

Price Erosion

The semiconductor industry is characterized by intense competition. Historically in the semiconductor industry, the average selling price of a product declined significantly over the life of the product. To win designs, Actel generally must price new products on the assumption that manufacturing cost reductions will be achieved, which often does not occur as soon as expected. While Actel expects to reduce the average selling prices of its products over time as it achieves manufacturing cost reductions, Actel is sometimes required by competitive pressures to reduce the prices of its new products more quickly than such cost reductions can be achieved. In addition, Actel sometimes approves price reductions on specific sales to meet competition. Declines in the average selling prices of Actel's products reduce net revenues unless offset by greater unit sales or a shift in the mix of products sold toward higher-priced products. In addition, declines in the average selling prices of Actel's products reduce gross margins unless offset by reductions in manufacturing costs or by a shift in the mix of products sold toward higher-margin products.

Force Majeure

The performance of Actel and each of its foundries, suppliers, subcontractors, distributors, agents, and customers is subject to events or conditions beyond such party's control, including labor disputes, acts of public enemies or terrorists, war or other military conflicts, blockades, insurrections, riots, epidemics, quarantine restrictions, landslides, lightning, earthquakes, fires, storms, floods, washouts, arrests, civil disturbances, restraints by or actions of governmental bodies acting in a sovereign capacity (including export or security restrictions on information, material, personnel, equipment, or otherwise), breakdowns of plant or machinery, inability to obtain transport or supplies, and the like. Actel's foundry partners in Japan and Taiwan and its operations in California are located in areas that have been seismically active in the recent past. In addition, the countries outside of the United States in which Actel's foundry partners and assembly and other subcontractors are located have unpredictable and potentially volatile economic, social, or political conditions, including the risks of conflict between Taiwan and the People's Republic of China or between North Korea and South Korea. The occurrence of any of these circumstances could disrupt Actel's operations and may have a materially adverse effect on Actel's business, financial condition, or results of operations.

Actel's corporate offices are located in California, which was subject to power outages and shortages during 2001. More extensive power shortages in the state could disrupt Actel's operations and interrupt its research and development activities.

Forward-Looking Statements

All italicized statements contained in this Annual Report on Form 10-K, including all italicized statements contained in any document incorporated herein by reference, are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. All forward-looking statements are made by Actel's management in the exercise of its best judgment based on the information currently known by management, but they are not guarantees of future performance. Thus, actual events and results may differ materially from those expressed or forecast in the forward-looking statements due to the Risk Factors identified herein or for other reasons. Actel undertakes no obligation to update any forward-looking statement contained or incorporated by reference in this Annual Report on Form 10-K.

Future Capital Needs

Actel must continue to make significant investments in research and development as well as capital equipment and expansion of facilities. Actel's future capital requirements will depend on many factors, including (among others) product development, investments in working capital, and acquisitions of complementary businesses, products, or technologies. Wafer manufacturers are increasingly demanding financial support from customers in the form of equity investments and advance purchase price deposits, which in some cases are substantial. Should Actel require additional capacity, it may be required to incur significant expenditures to secure such capacity.

To the extent that existing resources and future earnings are insufficient to fund Actel's operations, Actel may need to raise additional funds through public or private debt or equity financings. If additional funds are raised through the issuance of equity securities, the percentage ownership of current shareholders will be reduced and such equity securities may have rights, preferences, or privileges senior to those of the holders of Actel's Common Stock. No assurance can be given that

additional financing will be available or that, if available, it can be obtained on terms favorable to Actel and its shareholders. If adequate funds are not available, Actel may be required to delay, limit, or eliminate some or all of its proposed operations.

Gross Margin

Actel's gross margin is the difference between the revenues it receives from the sale of its products and the cost of those products. The price Actel can charge for a product is constrained principally by its competitors. While competition has always been intense, Actel believes price competition has become more acute. This may be due in part to the transition toward high-level design methodologies, which permit designers to wait until later in the design process before selecting a programmable or masked silicon device and make it easier to convert between PLDs or between a programmable and a masked silicon device. These competitive pressures may cause Actel to reduce the prices of its products more quickly than it can achieve cost reductions, which would reduce Actel's gross margin and may have a materially adverse effect on its operating results.

One of the most important variables affecting the cost of Actel's products is manufacturing yields. With its customized antifuse and flash manufacturing process requirements, Actel almost invariably experiences difficulties and delays in achieving satisfactory, sustainable yields on new processes or at new foundries. Until satisfactory yields are achieved, gross margins on news products will generally be lower than on mature products. Depending upon the rate at which sales of these new products ramp and the extent to which they displace mature products, the lower gross margins could have a materially adverse effect on Actel's operating results.

Management of Growth

Actel has in the past experienced and expects to again experience growth in the number of its employees and the scope of its operations, resulting in increased responsibilities for management personnel. To manage future growth effectively, Actel will need to continue to hire, train, motivate, and manage a growing number of employees. The future success of Actel will also depend on its ability to attract and retain qualified technical, marketing, and management personnel. In particular, the availability of qualified silicon design, software design, process, and test engineers is limited, and competition among companies for skilled and experienced engineering personnel is often strong. Especially during strong business cycles, Actel expects to experience difficulty in filling its needs for qualified engineers and other personnel. No assurance can be given that Actel will be able to achieve or manage effectively any such growth, and failure to do so could delay product development and introductions or otherwise have a materially adverse effect on Actel's business, financial condition, or results of operations.

Manufacturing Yields

Actel depends upon its independent wafer suppliers to produce wafers with acceptable yields and to deliver them to Actel in a timely manner. Currently, substantially all of Actel's revenues are derived from products based on Actel's proprietary antifuse process technologies. Successful implementation of antifuse process technology requires a high degree of coordination between Actel and its foundry. Therefore, significant lead-time is required to reach volume production on new processes and at new

foundries. Accordingly, no assurance can be given that volume production on Actel's new or next-generation families will be achieved in the near term or at all.

Actel introduced the ProASIC family of devices in 1999 and the ProASIC Plus family in 2002. While ProASIC products are based on a flash process technology that is less customized than an antifuse process, it is also a technology less familiar to Actel. In addition, it is generally more difficult to bring up an advanced flash process than it is to bring up an advanced antifuse process. Actel has always experienced difficulty achieving satisfactory, sustainable yields on new process technologies at new foundries, and the flash process at Infineon was no different. Although Actel believes that it has been able to overcome these difficulties in the past, no assurance can be given that it will be able to do so with respect to new flash products. In any event, until satisfactory, sustainable yields are achieved on ProASIC Plus devices, they generally will be sold at lower gross margins than Actel's mature product families, which could have a materially adverse effect on operating results.

The fabrication of antifuse and flash wafers is a complex process that requires a high degree of technical skill, state-of-the-art equipment, and effective cooperation between Actel and the foundry to produce acceptable yields. Minute impurities, errors in any step of the fabrication process, defects in the masks used to print circuits on a wafer, and other factors can cause a substantial percentage of wafers to be rejected or numerous die on each wafer to be non-functional. As is common in the semiconductor industry, Actel has experienced from time to time in the past, and expects to experience in the future, production yield problems and delivery delays. Any prolonged inability to obtain adequate yields or deliveries could have a materially adverse effect on Actel's business, financial condition, or results of operations.

One-Time Programmability (OTP)

The nonvolatility of Actel's antifuse FPGAs is necessary or desirable in some applications, but all other things being equal, logic designers generally would prefer to prototype with a reprogrammable logic device. This is because the designer can reuse the device if an error is made. The visibility associated with discarding an OTP device often causes designers to select a reprogrammable device even when the alternative OTP device offers significant advantages. This bias in favor of designing with reprogrammable logic devices appears to increase as the size of the design increases, and is a major reason Actel decided to offer reprogrammable ProASIC devices. No assurance can be given that Actel will be able to overcome this competitive disadvantage.

Patent Infringement

As is typical in the semiconductor industry, Actel has been and expects to be notified from time to time of claims that it may be infringing patents owned by others. During 2001, Actel held discussions regarding potential patent infringement issues with several third parties, some of which significantly greater financial and intellectual property resources than Actel. As it has in the past, Actel may obtain licenses under patents that it is alleged to infringe. Although patent holders commonly offer licenses to alleged infringers, no assurance can be given that licenses will be offered or that the terms of any offered licenses will be acceptable to Actel. Failure to obtain a license for technology allegedly used by Actel could result in litigation. All litigation, whether or not determined in favor of Actel, can result in significant expense to Actel and can divert the efforts of Actel's technical and management personnel from productive tasks. While Actel believes that reasonable resolution will occur, there can be no

assurance that these claims will be resolved or that the resolution of these claims will not have a materially adverse effect on Actel's business, financial condition, or results of operations. In addition, Actel's evaluation of the impact of these pending disputes could change based on new information learned by Actel.

In February 2001, Actel introduced SRAM-based VariCore EPGA IP cores. Since Actel did not receive any sublicensing rights under the Xilinx Agreement, the licensing of VariCore EPGAs by Actel would not be protected by the cross-license contained in the Xilinx Agreement.

Actel has obtained patents covering aspects of its FPGA architecture and logic modules and certain techniques for manufacturing its antifuse and flash FPGAs, but no assurance can be given that Actel's patents will be determined to be valid or that any assertions of infringement or invalidity by other parties will not be successful. In addition, Actel has agreed to defend and indemnify customers from and against claims that Actel products infringe the patent or other intellectual rights of third parties. In the event of an adverse ruling in any litigation involving intellectual property, Actel could suffer significant (and possibly treble) monetary damages, which could have a materially adverse effect on Actel's business, financial condition, or results of operations. Actel may also be required to discontinue the use of infringing processes; cease the manufacture, use, and sale or licensing of infringing products; expend significant resources to develop non-infringing technology; or obtain licenses under patents that it is infringing. In the event of a successful claim against Actel, Actel's failure to develop or license a substitute technology on commercially reasonable terms could also have a materially adverse effect on Actel's business, financial condition, and results of operations.

Potential Acquisitions

In pursuing its business strategy, Actel may acquire products, technologies, or businesses from third parties. Identifying and negotiating these acquisitions may divert substantial management time away from Actel's operations. An acquisition could absorb substantial cash resources, require Actel to incur or assume debt obligations, and/or involve the issuance of additional Actel equity securities. The issuance of additional equity securities may dilute, and could represent an interest senior to the rights of, the holders of Actel's Common Stock. An acquisition could involve significant write-offs (possibility resulting in a loss for the fiscal year(s) in which taken) and would require the amortization of any identifiable intangibles over a number of years, which would adversely affect earnings in those years. Any acquisition would require attention from Actel's management to integrate the acquired entity into Actel's operations, may require Actel to develop expertise outside its existing business, and could result in departures of management from either Actel or the acquired entity. An acquired entity may have unknown liabilities, and its business may not achieve the results anticipated at the time it is acquired by Actel. The occurrence of any of these circumstances could disrupt Actel's operations and may have a materially adverse effect on Actel's business, financial condition, or results of operations.

Protection of Intellectual Property

Actel has historically devoted significant resources to research and development and believes that the intellectual property derived from such research and development is a valuable asset that has been and will continue to be important to the success of Actel's business. Actel relies primarily on a combination of nondisclosure agreements, other contractual provisions, and patent and copyright laws to protect its proprietary rights. No assurance can be given that the steps taken by Actel will be adequate to

protect its proprietary rights. In addition, the laws of certain territories in which Actel's products are or may be developed, manufactured, or sold, including Asia and Europe, may not protect Actel products and intellectual property rights to the same extent as the laws of the United States. Failure of Actel to enforce its patents or copyrights or to protect its trade secrets could have a materially adverse effect on Actel's business, financial condition, or results of operations.

Reliance on Distributors

In 2001, sales made through distributors accounted for 68% of Actel's net revenues. Two of Actel's distributors, Pioneer and Unique, accounted for 20% and 19%, respectively, of Actel's net revenues in 2001. No assurance can be given that future sales by these or other distributors will continue at current levels or that Actel will be able to retain its current distributors on terms that are acceptable to Actel. During 2001, Actel consolidated its distribution channel by terminating Arrow, which accounted for 13% of Actel's net revenues in 2001.

Actel's distributors generally offer products of several different companies, including products that are competitive with Actel's products. Accordingly, there is a risk that these distributors may give higher priority to products of other suppliers, thus reducing their efforts to sell Actel's products. In addition, Actel's agreements with its distributors are generally terminable at the distributor's option. A reduction in sales efforts by one or more of Actel's current distributors or a termination of any distributor's relationship with Actel could have a materially adverse effect on Actel's business, financial condition, or results of operations.

Actel defers recognition of revenue on shipments to distributors until the product is resold by the distributor to the end user. Actel's distributors have occasionally built inventories in anticipation of substantial growth in sales and, when such growth did not occur as rapidly as anticipated, substantially reduced the amount of product ordered from Actel in subsequent quarters. Such a slowdown in orders would generally reduce Actel's profit margins on future sales of higher cost products because Actel would be unable to take advantage of any manufacturing cost reductions while the distributor depleted its inventory at lower average selling prices. In addition, while Actel believes that its major distributors are currently adequately capitalized, no assurance can be given that one or more of Actel's distributors will not experience financial difficulties. The failure of one or more of Actel's distributors to pay for products ordered from Actel or to continue operations because of financial difficulties or for other reasons could have a materially adverse effect on Actel's business, financial condition, or results of operations.

Reliance on International Sales

Sales to customers outside the United States accounted for 38% of net revenues in 2001. The largest portion of export sales is made to European customers, which accounted for 28% of net revenues in 2001. Actel expects that revenues derived from international sales will continue to represent a significant portion of its total revenues. International sales are subject to a variety of risks, including longer payment cycles, greater difficulty in accounts receivable collection, currency exchange risks, currency restrictions, tariffs, trade barriers, taxes, export license requirements, and the impact of recessionary environments in economies outside the United States. All of Actel's foreign sales are denominated in U.S. Dollars, so Actel's products become less price competitive in countries with currencies that are declining in value against the dollar. In addition, since a majority of Actel's foreign

sales are made through distributors, such sales are subject to the risks described above in "Reliance on Distributors."

Semiconductor Industry Risks

The semiconductor industry has historically been cyclical and periodically subject to significant economic downturns, which are characterized by diminished product demand, accelerated price erosion, and overcapacity. Beginning in the fourth quarter of 2000, Actel and the semiconductor industry in general experienced reduced bookings and backlog cancellations due to excess inventories at communications, computer, and consumer equipment manufacturers and a general softening in the overall economy. The downturn, which has been severe and could be prolonged, resulted in lower revenues, which in turn had a disproportionate effect on profitability, including Actel's. Actel may in the future experience substantial period-to-period fluctuations in business and results of operations due to general semiconductor industry conditions, overall economic conditions, or other factors, including legislation and regulations governing the import or export of semiconductor products.

Strategic Investments

Actel occasionally makes equity investments in public or private companies for the promotion of strategic objectives. The value of these equity investments may experience significant volatility, and Actel monitors its equity investments for impairment on a periodic basis. In the event that the carrying value of an equity investment were to exceed its fair value, and the decline in value were determined to be other than temporary, the carrying value would be reduced to its current fair value, which would have an adverse effect on Actel's operating results that might be material.

Technological Change and Dependence on New Product Development

The market for Actel's products is characterized by rapidly changing technology, frequent new product introductions, and declining average selling prices over product life cycles, each of which makes the timely introduction of new products a critical objective of Actel. Actel's future success is highly dependent upon the timely completion and introduction of new products at competitive price and performance levels. In evaluating new product decisions, Actel must anticipate well in advance both the future demand and the technology that will be available to supply such demand. Failure to anticipate customer demand, delays in developing new products with anticipated technological advances, or failure to coordinate the design and development of silicon and associated software products could have a materially adverse effect on Actel's business, financial condition, or results of operation.

No assurance can be given that Actel's design and introduction schedules for new products or the supporting software or hardware will be met, that any new products will gain market acceptance, or that Actel will respond effectively to new technological changes or new product announcements by others. Any failure of Actel to successfully define, develop, market, manufacture, assemble, test, or program competitive new products could have a materially adverse effect on its business, financial condition, or results of operations.

In addition, there are greater technological and operational risks associated with new products. The inability of Actel's wafer suppliers to produce advanced products; delays in commencing or maintaining volume shipments of new products; the discovery of product, process, software, or

programming failures; and any related product returns could each have a materially adverse effect on Actel's business, financial condition, or results of operation.

Actel must also continue to make significant investments in research and development to develop new products and achieve market acceptance for such products. Actel conducts most of its research and development activities at facilities operated by its foundries. Although Actel to date has not experienced any significant difficulty in obtaining access to such facilities, no assurance can be given that access will not be limited or that such facilities will be adequate to meet Actel's needs in the future.

Use of Estimates

The preparation of the financial statements in conformity with accounting principals generally accepted in the United States requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues, and expenses and the related disclosure of contingent assets and liabilities. Actel bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results invariably differ from these estimates, and such differences could be material. In addition, if these estimates or their related assumptions change in the future, it could have a materially adverse effect on Actel's operating results.

Volatility of Stock

The price of Actel's Common Stock can fluctuate substantially on the basis of such factors as announcements of new products by Actel or its competitors, quarterly fluctuations in Actel's financial results or the financial results of other semiconductor companies, or general conditions in the semiconductor industry, financial markets, or economy. In addition, stock markets have experienced extreme price and volume volatility in recent years. This volatility has had a substantial effect on the market prices of the securities issued by technology companies, at times for reasons unrelated to the operating performance of the specific companies.

Executive Officers of the Registrant

The following table identifies each executive officer of Actel as of March 31, 2002:

Name	Age	Position
John C. East	57	President and Chief Executive Officer
Esmat Z. Hamdy	52	Senior Vice President of Technology & Operations
Jon A. Anderson	43	Vice President of Finance and Chief Financial Officer
Anthony Farinaro	39	Vice President & General Manager of Design Services
Paul V. Indaco	51	Vice President of Worldwide Sales
Dennis G. Kish	38	Vice President of Marketing
Barbara L. McArthur	51	Vice President of Human Resources
Fares N. Mubarak	40	Vice President of Engineering
David L. Van De Hey	46	Vice President & General Counsel and Secretary

Mr. East has served as President and Chief Executive Officer of Actel since December 1988. From April 1979 until joining Actel, Mr. East served in various positions with Advanced Micro Devices, a semiconductor manufacturer, including Senior Vice President of Logic Products from November 1986 to November 1988. From December 1976 to March 1979, he served as Operations Manager for Raytheon Semiconductor. From September 1968 to December 1976, Mr. East served in various marketing, manufacturing, and engineering positions for Fairchild Camera and Instrument Corporation, a semiconductor manufacturer.

Dr. Hamdy is a founder of Actel, was Vice President of Technology from August 1991 to March 1996 and Senior Vice President of Technology from March 1996 to September 1996, and has been Senior Vice President of Technology and Operations since September 1996. From November 1985 to July 1991, he held a number of management positions with Actel's technology and development group. From January 1981 to November 1985, Dr. Hamdy held various positions at Intel Corporation, a semiconductor manufacturer, lastly as project manager.

Mr. Anderson joined Actel in March 1998 as Controller and has been Vice President of Finance and Chief Financial Officer since August 2001. From 1987 until joining Actel, he held various financial positions at National Semiconductor, a semiconductor company, with the most recent position of Director of Finance, Local Area Networks Division. From 1982 to 1986, he was an auditor with Touche Ross & Co., a public accounting firm.

Mr. Farinaro joined Actel in August 1998 as Vice President & General Manager of Design Services. From February 1990 until joining Actel, he held various engineering and management positions with GateField (formally Zycad Corporation until 1997), a semiconductor company, with the most recent position of Vice President of Application & Design Services. From 1985 to 1990, Mr. Farinaro held various engineering and management positions at Singer Kearfott, an aerospace electronics company, and its spin-off, Plessey Electronic Systems Corporation.

Mr. Indaco joined Actel in March 1999 as Vice President of Worldwide Sales. From January 1996 until joining Actel, he served as Vice President of Sales for Chip Express, a semiconductor manufacturer. From January September 1994 to January 1996, Mr. Indaco was Vice President of Sales for Redwood Microsystems, a semiconductor manufacturer. From February 1984 to September 1994, he

held senior sales management positions with LSI Logic, a semiconductor manufacturer. From June 1978 to February 1984, Mr. Indaco held various field engineering sales and marketing positions with Intel Corporation, a semiconductor manufacturer. From June 1976 to June 1978, he held various marketing positions with Texas Instruments, a semiconductor manufacturer.

Mr. Kish joined Actel in December 1999 as Vice President of Strategic Product Marketing and became Vice President of Marketing in July 2000. Prior to joining Actel, he held senior management positions at Synopsys, an EDA company, and Atmel, a semiconductor manufacturer. Before that, Mr. Kish held sales and engineering positions with Texas Instruments, a semiconductor manufacturer.

Ms. McArthur joined Actel in July of 2000 as Vice President of Human Resources. From 1997 until joining Actel, she was Vice President of Human Resources at Talus Solutions. Before that, Ms. McArthur held senior human resource positions at Applied Materials from 1993 to 1997, at 3Com Corporation from 1987 to 1993, and at Saga Corporation from 1978 to 1986.

Mr. Mubarak joined Actel in November 1992, was Director of Product and Test Engineering until October 1997, and has been Vice President of Engineering since October 1997. From 1989 until joining Actel, he held various engineering and engineering management positions with Samsung Semiconductor Inc., a semiconductor manufacturer, and its spin-off, IC Works, Inc. From 1984 to 1989, Mr. Mubarak held various engineering, product planning, and engineering management positions with Advanced Micro Devices, a semiconductor manufacturer.

Mr. Van De Hey joined Actel in July 1993 as Corporate Counsel, became Secretary in May 1994, and has been Vice President & General Counsel since August 1995. From November 1988 to September 1993, he was an associate with Wilson, Sonsini, Goodrich & Rosati, Professional Corporation, a law firm in Palo Alto, California, and Actel's outside legal counsel. From August 1985 until October 1988, he was an associate with the Cleveland office of Jones, Day, Reavis & Pogue, a law firm.

Subject to their rights under any contract of employment or other agreement, executive officers serve at the discretion of the Board of Directors.

ITEM 2. PROPERTIES

Actel's principal administrative, marketing, sales, customer support, design, research and development, and testing facilities are located in Sunnyvale, California, in three buildings that comprise approximately 138,000 square feet. These buildings are leased through June 2003, and Actel has a renewal option for an additional five-year term. Actel also leases sales offices in the metropolitan areas of Atlanta, Boston, Chicago, Dallas, Denver, Hong Kong, Houston, London, Los Angeles, Milan, Minneapolis/St. Paul, Munich, New York, Orlando, Paris, Ottawa (Ontario), Philadelphia, Raleigh, Seattle, Tokyo, and Washington D.C., as well as the facilities of the Design Services Group in Mt. Arlington, New Jersey, and the facility formerly occupied by GateField in Fremont, California. *Actel believes its facilities will be adequate for its needs in 2002.*

ITEM 3. LEGAL PROCEEDINGS

There are no pending legal proceedings of a material nature to which Actel is a party or of which any of its property is the subject. There are no such legal proceedings known by Actel to be contemplated by any governmental authority.

On March 29, 2001, Unisys Corporation (Unisys) brought suit in the United States District Court for the Northern District of California, San Jose Division (Court), against Actel seeking monetary damages and injunctive relief. Actel and Unisys orally agreed to settle the case on April 25, 2001, and executed a definitive written settlement agreement on June 29, 2001. The Court dismissed the case with prejudice on July 13, 2001. The settlement was immaterial to Actel's business, financial condition, and operating results.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of security holders during the fourth quarter of the fiscal year covered by this report.

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON STOCK AND RELATED SHAREHOLDER MATTERS

Actel's Common Stock has been traded on the Nasdaq National Market under the symbol "ACTL" since its initial public offering on August 2, 1993. On March 25, 2001, there were 212 shareholders of record. Since many shareholders have their shares held of record in the names of their brokerage firm, the actual number of shareholders is estimated by Actel to be about 8,300. The following table sets forth for the periods indicated the high and low sale prices per share of Actel Common Stock as reported on the Nasdaq National Market.

	2001		2000	
	High	Low	High	Low
First Quarter	$ 31.81	$ 17.38	$ 36.50	$ 21.63
Second Quarter	26.90	16.69	46.88	22.00
Third Quarter	25.00	15.27	55.38	29.63
Fourth Quarter	22.14	15.54	39.00	20.00

On April 3, 2002, the reported last sale of Actel Common Stock on the Nasdaq National Market was $20.30.

Recent Sales of Unregistered Securities

On December 21, 1999, Actel acquired AutoGate Logic, Inc. (AGL) by merger. The purchase price of $7.2 million included the issuance of 285,943 shares of Actel Common Stock and the assumption of options to purchase 89,057 shares of Actel Common Stock. The shares issued and delivered to AGL shareholders were exempt from registration pursuant to Section 4(2) of the Securities Act and/or Regulation D promulgated thereunder because such shares were sold to investors who were "accredited"

and had access to financial and other relevant data concerning Actel or were represented by a qualified "purchaser representative" under Regulation D.

On June 2, 2000, Actel acquired Prosys by merger. The purchase price of $24.5 million included the issuance of 220,518 shares of Actel Common Stock and the assumption of options to purchase 294,000 shares of Actel Common Stock. During 2001, an additional 54,290 shares of Actel Common Stock was issued to Prosys security holders upon the achievement of certain technological milestones specified in the June 2000 purchase agreement. The shares issued and delivered to Prosys shareholders were exempt from registration pursuant to Section 4(2) of the Securities Act because such shares were sold to accredited investors who had access to financial and other relevant data concerning Actel.

ITEM 6. SELECTED FINANCIAL DATA

The information appearing under the caption "Selected Consolidated Financial Data" in the 2001 Annual Report is incorporated herein by this reference.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The information appearing under the caption "Management's Discussion and Analysis of Financial Conditions and Results of Operations" of the 2001 Annual Report is incorporated herein by this reference.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information appearing under the caption "Market Risk" under the main caption "Management's Discussion and Analysis of Financial Conditions and Results of Operations" in the 2001 Annual Report is incorporated herein by this reference.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The information appearing under the captions "Consolidated Balance Sheets," "Consolidated Statements of Income," "Consolidated Statements of Shareholders' Equity," "Consolidated Statements of Cash Flows," "Notes to Consolidated Financial Statements," and "Report of Ernst & Young LLP, Independent Auditors" in the 2001 Annual Report is incorporated herein by this reference.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

PART III

Except for the information specifically incorporated by reference from Actel's definitive Proxy Statement for the Annual Meeting of Shareholders to be held on May 24, 2002, as filed on or about April 8, 2002, with the Securities and Exchange Commission (2002 Proxy Statement) in Part III of this Annual Report on Form 10-K, the 2002 Proxy Statement shall not be deemed to be filed as part of this Report.

Without limiting the foregoing, the information under the captions "Compensation Committee Report," "Audit Committee Report," and "Company Stock Performance" under the main caption "OTHER INFORMATION" in the 2002 Proxy Statement are not incorporated by reference in this Annual Report on Form 10-K.

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information regarding the identification and business experience of Actel's directors under the caption "Nominees" under the main caption "PROPOSAL NO. 1 — ELECTION OF DIRECTORS" in the 2002 Proxy Statement and the information under the main caption "COMPLIANCE WITH SECTION 16(a) OF THE SECURITIES EXCHANGE ACT OF 1934" in the 2002 Proxy Statement are incorporated herein by this reference. For information regarding the identification and business experience of Actel's executive officers, see "Executive Officers of the Registrant" at the end of Item 1 in Part I of this Annual Report on Form 10-K.

ITEM 11. EXECUTIVE COMPENSATION

The information under the caption "Director Compensation" under the main caption "PROPOSAL NO. 1 — ELECTION OF DIRECTORS" in the 2002 Proxy Statement and the information under the caption "Executive Compensation" under the main caption "OTHER INFORMATION" in the 2002 Proxy Statement are incorporated herein by this reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information under the caption "Share Ownership" under the main caption "INFORMATION CONCERNING SOLICITATION AND VOTING" in the 2002 Proxy Statement and the information under the caption "Security Ownership of Management" under the main caption "OTHER INFORMATION" in the 2002 Proxy Statement are incorporated herein by this reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information under the caption "Certain Transactions" under the main caption "OTHER INFORMATION" in the 2002 Proxy Statement is incorporated herein by this reference.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULE AND REPORTS ON FORM 8-K

(a) The following documents are filed as part of this Annual Report on Form 10-K:

(1) Financial Statements. The following consolidated financial statements of Actel Corporation included in the 2001 Annual Report are incorporated by reference in Item 8 of this Annual Report on Form 10-K:

Consolidated balance sheets at December 31, 2001 and 2000

Consolidated statements of operations for each of the three years in the period ended December 31, 2001

Consolidated statements of shareholders' equity and other comprehensive income/(loss) for each of the three years in the period ended December 31, 2001

Consolidated statements of cash flows for each of the three years in the period ended December 31, 2001

Notes to consolidated financial statements

(2) Financial Statement Schedule. The financial statement schedule listed under 14(d) hereof is filed with this Annual Report on Form 10-K.

(3) Exhibits. The exhibits listed under Item 14(c) hereof are filed with, or incorporated by reference into, this Annual Report on Form 10-K.

(b) Reports on Form 8-K. None.

(c) Exhibits. The following exhibits are filed as part of, or incorporated by reference into, this Report on Form 10-K:

Exhibit Number	Description
3.1	Restated Articles of Incorporation (filed as Exhibit 3.2 to the Registrant's Registration Statement on Form S-1 (File No. 33-64704), declared effective on August 2, 1993).
3.2	Restated Bylaws of the Registrant (filed as Exhibit 3.3 to the Registrant's Registration Statement on Form S-1 (File No. 33-64704), declared effective on August 2, 1993).
10.1 (2)	Form of Indemnification Agreement for directors and officers (filed as Exhibit 10.1 to the Registrant's Registration Statement on Form S-1 (File No. 33-64704), declared effective on August 2, 1993).

Exhibit Number	Description
10.2 (2)	1986 Incentive Stock Option Plan, as amended and restated (filed as Exhibit 10.2 to the Registrant's Annual Report on Form 10-K (File No. 0-21970) for the fiscal year ended January 2, 2000).
10.3 (2)	1993 Directors' Stock Option Plan, as amended and restated (filed as Exhibit 10.3 to the Registrant's Annual Report on Form 10-K (File No. 0-21970) for the fiscal year ended December 28, 1997).
10.4 (2)	1993 Employee Stock Purchase Plan, as amended and restated (filed as Exhibit 10.4 to the Registrant's Annual Report on Form 10-K (File No. 0-21970) for the fiscal year ended December 28, 1997).
10.5 (2)	1995 Employee and Consultant Stock Plan, as amended and restated (filed as Exhibit 10.5 to the Registrant's Annual Report on Form 10-K (File No. 0-21970) for the fiscal year ended December 29, 1996).
10.6 (2)	Employee Retention Plan, as amended and restated.
10.7 (2)	Deferred Compensation Plan, as amended and restated (filed as Exhibit 10.7 to the Registrant's Annual Report on Form 10-K (File No. 0-21970) for the fiscal year ended December 31, 2000).
10.8	Form of Distribution Agreement (filed as Exhibit 10.13 to the Registrant's Registration Statement on Form S-1 (File No. 33-64704), declared effective on August 2, 1993).
10.9 (1)	Patent Cross License Agreement dated April 22, 1993 between the Registrant and Xilinx, Inc. (filed as Exhibit 10.14 to the Registrant's Registration Statement on Form S-1 (File No. 33-64704), declared effective on August 2, 1993).
10.10	Manufacturing Agreement dated February 3, 1994 between the Registrant and Chartered Semiconductor Manufacturing Pte Ltd (filed as Exhibit 10.17 to the Registrant's Annual Report on Form 10-K (File No. 0-21970) for the fiscal year ended January 2, 1994).
10.11 (1)	Product Development and Marketing Agreement dated August 1, 1994, between the Registrant and Loral Federal Systems Company (filed as Exhibit 10.19 to the Registrant's Quarterly Report on Form 10-Q (File No. 0-21970) for the quarterly period ended October 2, 1994).
10.12 (1)	Foundry Agreement dated as of June 29, 1995, between the Registrant and Matsushita Electric Industrial Co., Ltd and Matsushita Electronics Corporation (filed as Exhibit 10.25 to the Registrant's Quarterly Report on Form 10-Q (File No. 0-21970) for the quarterly period ended July 2, 1995).

Exhibit Number	Description
10.13	Lease Agreement for the Registrant's offices in Sunnyvale, California, dated May 10, 1995 (filed as Exhibit 10.19 to the Registrant's Annual Report on Form 10-K (File No. 0-21970) for the fiscal year ended December 31, 1995).
10.14 (1)	License Agreement dated as of March 6, 1995, between the Registrant and BTR, Inc. (filed as Exhibit 10.20 to the Registrant's Annual Report on Form 10-K (File No. 0-21970) for the fiscal year ended December 29, 1996).
10.15	Asset Purchase Agreement dated August 14, 1998, between GateField Corporation and Actel Corporation (filed as Exhibit 2.1 to GateField Corporation's Current Report on Form 8-K (File No. 0-13244) on August 14, 1998, and incorporated herein by this reference).
10.16 (1)	Patent Cross License Agreement dated August 25, 1998, between Actel Corporation and QuickLogic Corporation. (filed as Exhibit 10.19 to the Registrant's Annual Report on Form 10-K (File No. 0-21970) for the fiscal year ended January 3, 1999).
10.17	Amended And Restated Agreement and Plan of Merger by and among Actel Corporation, GateField Acquisition Corporation, and GateField Corporation dated as of May 31, 2000 (filed as Annex I to GateField Corporation's Definitive Proxy Statement on Schedule 14A (File No. 0-13244) on June 9, 2000, and incorporated herein by this reference).
10.18	Agreement and Plan of Reorganization by and between Actel Corporation and Prosys Technology, Inc., Jung-Cheun "Frank" Lien, Sheng "Jason" Feng, Chung Sun, Eddy Huang, and Nan Horng Yeh dated as of June 2, 2000 (filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K (File No. 0-21970) on June 16, 2000, and incorporated herein by this reference).
13	Portions of Registrant's Annual Report to Shareholders for the fiscal year ended January 6, 2002, incorporated by reference into this Report on Form 10-K.
21	Subsidiaries of Registrant (see page K-54)
23	Consent of Ernst & Young LLP, Independent Auditors (see page K-52)
24	Power of Attorney (see page K-51)

(1) Confidential treatment requested as to a portion of this Exhibit.

(2) This Exhibit is a management contract or compensatory plan or arrangement.

(d) Financial Statement Schedule. The following financial statement schedule of Actel Corporation is filed as part of this Report on Form 10-K and should be read in conjunction with the Consolidated Financial Statements of Actel Corporation, including the notes thereto, and the Report of Independent Auditors with respect thereto:

Schedule	Description	Page
II	Valuation and qualifying accounts	K-53

All other schedules for which provision is made in the applicable accounting regulations of the Securities and Exchange Commission are not required under the related instructions or are inapplicable and therefore have been omitted.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

ACTEL CORPORATION

April 4, 2002

By: /s/ John C. East
John C. East
President and Chief Executive Officer

EXHIBIT 24

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below hereby constitutes and appoints John C. East, Jon A. Anderson, and David L. Van De Hey, and each of them acting individually, as his attorney-in-fact, each with full power of substitution, for him in any and all capacities, to sign any and all amendments to this Annual Report on Form 10-K and to file the same, with exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, hereby ratifying and confirming all that each of said attorneys-in-fact, or his substitute or substitutes, may do or cause to be done by virtue thereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this Annual Report on Form 10-K has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ John C. East (John C. East)	President and Chief Executive Officer (Principal Executive Officer) and Director	April 4, 2002
/s/ Jon A. Anderson (Jon A. Anderson)	Vice President of Finance and Chief Financial Officer (Principal Financial and Accounting Officer)	April 4, 2002
/s/ James R. Fiebiger (James R. Fiebiger)	Director	April 4, 2002
/s/ Jos C. Henkens (Jos C. Henkens)	Director	April 4, 2002
/s/ Jacob S. Jacobsson (Jacob S. Jacobsson)	Director	April 4, 2002
/s/ Frederic N. Schwettmann (Frederic N. Schwettmann)	Director	April 4, 2002
/s/ Robert G. Spencer (Robert G. Spencer)	Director	April 4, 2002

EXHIBIT 23

CONSENT OF ERNST & YOUNG LLP, INDEPENDENT AUDITORS

We consent to the incorporation by reference in this Annual Report (Form 10-K) of Actel Corporation of our report dated January 21, 2002, included in the 2001 Annual Report to Shareholders of Actel Corporation.

Our audits also included the financial statement schedule of Actel Corporation listed in Item 14(a). This schedule is the responsibility of Actel's management. Our responsibility is to express an opinion based on our audits. In our opinion, the financial statement schedule referred to above, when considered in relation to the basic financial statements as a whole, presents fairly in all material respects the information set forth therein.

We also consent to the incorporation by reference in the Registration Statements (Form S-8 Nos. 33-74492, 333-3398, 333-71627, 333-36222, 333-43274, 333-54652, and 333-81926) of our report dated January 21, 2002, with respect to the consolidated financial statements of Actel Corporation incorporated by reference in its Annual Report (Form 10-K) for the year ended December 31, 2001, and our report included in the preceding paragraph with respect to the financial statement schedule included in this Annual Report (Form 10-K) of Actel Corporation.

/S/ ERNST & YOUNG LLP

San Jose, California
April 5, 2002

SCHEDULE II

ACTEL CORPORATION

Valuation and Qualifying Accounts
(in thousands)

	Balance at beginning of period	Provisions	Write-Offs	Balance at end of period
Allowance for doubtful accounts:				
Year ended December 31, 1999	$ 1,554	$ —	$ 475	$ 1,079
Year ended December 31, 2000	1,079	91	100	1,070
Year ended December 31, 2001	$ 1,070	$ 572	$ 314	$ 1,328

EXHIBIT 21

ACTEL CORPORATION

Subsidiaries

Actel Europe, Ltd., a U.K. corporation

Actel Europe SARL, a French corporation

Actel GmbH, a German corporation

Actel Pan-Asia Corporation, a Nevada corporation

Actel Pan-Asia, Hong Kong Ltd., a Hong Kong corporation

Actel Japan, KK, a Japanese corporation