

NVIDIA CORP  
Form 10-Q  
December 07, 2010

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

---

FORM 10-Q

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

For the quarterly period ended October 31, 2010

OR

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

Commission file number: 0-23985

NVIDIA CORPORATION  
(Exact name of registrant as specified in its charter)

Delaware  
(State or Other Jurisdiction of  
Incorporation or Organization)

94-3177549  
(I.R.S. Employer  
Identification No.)

2701 San Tomas Expressway  
Santa Clara, California 95050  
(408) 486-2000

(Address, including zip code, and telephone number,  
including area code, of principal executive offices)

N/A

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

Edgar Filing: NVIDIA CORP - Form 10-Q

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

Large accelerated filer  
 Accelerated filer  
 Non-accelerated filer (Do not check if a smaller reporting company)  
 Smaller reporting company

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

The number of shares of common stock, \$0.001 par value, outstanding as of December 3, 2010, was 581 million.

---

NVIDIA CORPORATION  
FORM 10-Q  
FOR THE QUARTER ENDED OCTOBER 31, 2010

TABLE OF CONTENTS

	Page
<u>PART I : FINANCIAL INFORMATION</u>	
<u>Item 1. Financial Statements (Unaudited)</u>	
<u>a) Condensed Consolidated Statements of Operations for the three and nine months ended October 31, 2010 and October 25, 2009</u>	3
<u>b) Condensed Consolidated Balance Sheets as of October 31, 2010 and January 31, 2010</u>	4
<u>c) Condensed Consolidated Statements of Cash Flows for the nine months ended October 31, 2010 and October 25, 2009</u>	5
<u>d) Notes to Condensed Consolidated Financial Statements</u>	6
<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	27
<u>Item 2. Quantitative and Qualitative Disclosures About Market Risk</u>	39
<u>Item 4. Controls and Procedures</u>	40
<u>PART II : OTHER INFORMATION</u>	
<u>Item 1. Legal Proceedings</u>	41
<u>Item 1A. Risk Factors</u>	41
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	58
<u>Item 6. Exhibits</u>	59
<u>Signature</u>	60



## PART I. FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)

NVIDIA CORPORATION AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
(UNAUDITED)

(In thousands, except per share data)

	Three Months Ended		Nine Months Ended	
	October 31, 2010	October 25, 2009	October 31, 2010	October 25, 2009
Revenue	\$ 843,912	\$ 903,206	\$ 2,656,933	\$ 2,343,957
Cost of revenue	451,850	511,423	1,674,202	1,605,755
Gross profit	392,062	391,783	982,731	738,202
Operating expenses				
Research and development	204,527	197,948	633,267	692,600
Sales, general and administrative	83,752	85,990	273,495	278,829
Total operating expenses	288,279	283,938	906,762	971,429
Income (loss) from operations	103,783	107,845	75,969	(233,227)
Interest income	4,220	5,444	14,596	17,347
Other income (expense), net	(4,418)	(3,082)	(5,302)	(5,835)
Income (loss) before income tax benefit	103,585	110,207	85,263	(221,715)
Income tax expense (benefit)	18,723	2,630	3,768	(22,652)
Net income (loss)	\$ 84,862	\$ 107,577	\$ 81,495	\$ (199,063)
Basic net income (loss) per share	\$ 0.15	\$ 0.20	\$ 0.14	\$ (0.36)
Shares used in basic per share computation	577,323	551,283	572,420	546,737
Diluted net income (loss) per share	\$ 0.15	\$ 0.19	\$ 0.14	\$ (0.36)
Shares used in diluted per share computation	582,648	574,381	584,500	546,737

See accompanying Notes to Condensed Consolidated Financial Statements

NVIDIA CORPORATION AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS  
(UNAUDITED)  
(In thousands)

	October 31, 2010	January 31, 2010
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 451,174	\$ 447,221
Marketable securities	1,536,046	1,281,006
Accounts receivable, net	399,502	374,963
Inventories	377,812	330,674
Prepaid expenses and other	34,416	38,214
Deferred income taxes	8,752	8,752
<b>Total current assets</b>	<b>2,807,702</b>	<b>2,480,830</b>
Property and equipment, net	585,672	571,858
Goodwill	369,844	369,844
Intangible assets, net	112,642	120,458
Deposits and other assets	39,719	42,928
<b>Total assets</b>	<b>\$ 3,915,579</b>	<b>\$ 3,585,918</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Current liabilities:</b>		
Accounts payable	\$ 324,770	\$ 344,527
Accrued liabilities and other	491,719	439,851
<b>Total current liabilities</b>	<b>816,489</b>	<b>784,378</b>
Other long-term liabilities	177,851	111,950
Capital lease obligations, long term	23,359	24,450
Commitments and contingencies - see Note 12		
<b>Stockholders' equity:</b>		
Preferred stock	—	—
Common stock	671	653
Additional paid-in capital	2,386,257	2,219,401
Treasury stock, at cost	(1,479,392)	(1,463,268)
Accumulated other comprehensive income	12,667	12,172
Retained earnings	1,977,677	1,896,182
<b>Total stockholders' equity</b>	<b>2,897,880</b>	<b>2,665,140</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 3,915,579</b>	<b>\$ 3,585,918</b>

See accompanying Notes to Condensed Consolidated Financial Statements.



NVIDIA CORPORATION AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
(UNAUDITED)  
(In thousands)

	Nine Months Ended	
	October 31, 2010	October 25, 2009
Cash flows from operating activities:		
Net income (loss)	\$ 81,495	\$ (199,063)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Stock-based compensation expense related to stock option purchase	-	135,735
Depreciation and amortization	140,596	148,750
Stock based compensation expense	74,985	82,471
Other	5,382	3,854
Deferred income taxes	(172)	(25,773)
Changes in operating assets and liabilities:		
Accounts receivable	(24,567)	(79,749)
Inventories	(46,746)	257,729
Prepaid expenses and other current assets	3,798	8,125
Deposits and other assets	4,864	(2,657)
Accounts payable	(21,868)	96,588
Accrued liabilities and other long-term liabilities	23,357	(7,448)
Net cash provided by operating activities	241,124	418,562
Cash flows from investing activities:		
Purchases of marketable securities	(1,193,323)	(804,610)
Proceeds from sales and maturities of marketable securities	931,099	624,295
Purchases of property and equipment and intangible assets	(76,547)	(55,026)
Other	(1,656)	(218)
Net cash used in investing activities	(340,427)	(235,559)
Cash flows from financing activities:		
Payments related to stock option purchase	-	(78,075)
Proceeds from issuance of common stock under employee stock plans	104,131	92,192
Payments under capital lease obligations	(875)	(318)
Net cash provided by financing activities	103,256	13,799
Change in cash and cash equivalents	3,953	196,802
Cash and cash equivalents at beginning of period	447,221	417,688
Cash and cash equivalents at end of period	\$ 451,174	\$ 614,490
Supplemental disclosures of cash flow information:		
Cash paid for income taxes, net	\$ 2,522	\$ 2,611
Cash paid for interest on capital lease obligations	\$ 2,359	\$ 2,453
Other non-cash activities:		



Edgar Filing: NVIDIA CORP - Form 10-Q

Assets acquired by assuming related liabilities	\$	67,785	\$	13,596
Change in unrealized gains from marketable securities	\$	497	\$	5,780

See accompanying Notes to Condensed Consolidated Financial Statements.

NVIDIA CORPORATION AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

Note 1 - Summary of Significant Accounting Policies

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements were prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Article 10 of Securities and Exchange Commission, or SEC, Regulation S-X. In the opinion of management, all adjustments, consisting only of normal recurring adjustments except as otherwise noted, considered necessary for a fair statement of results of operations and financial position have been included. The results for the interim periods presented are not necessarily indicative of the results expected for any future period. The following information should be read in conjunction with the audited financial statements and notes thereto included in our Annual Report on Form 10-K for the fiscal year ended January 31, 2010.

Fiscal Year

We operate on a 52 or 53-week year, ending on the last Sunday in January. Fiscal year 2011 is a 52-week year, compared to fiscal year 2010, which was a 53-week year. The third quarter of fiscal years 2011 and 2010 are both 13-week quarters.

Reclassifications

Certain prior fiscal year balances have been reclassified to conform to the current fiscal year presentation.

Principles of Consolidation

Our condensed consolidated financial statements include the accounts of NVIDIA Corporation and its wholly owned subsidiaries. All material intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America, or U.S. GAAP, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. On an on-going basis, we evaluate our estimates, including those related to revenue recognition, cash equivalents and marketable securities, accounts receivable, inventories, income taxes, goodwill, stock-based compensation, warranty liabilities, litigation, investigation and settlement costs and other contingencies. These estimates are based on historical facts and various other assumptions that we believe are reasonable.

Revenue Recognition

## Product Revenue

We recognize revenue from product sales when persuasive evidence of an arrangement exists, the product has been delivered, the price is fixed or determinable, and collection is reasonably assured. For most sales, we use a binding purchase order and in certain cases we use a contractual agreement as evidence of an arrangement. We consider delivery to occur upon shipment provided title and risk of loss have passed to the customer based on the shipping terms. At the point of sale, we assess whether the arrangement fee is fixed or determinable and whether collection is reasonably assured. If we determine that collection of a fee is not reasonably assured, we defer the fee and recognize revenue at the time collection becomes reasonably assured, which is generally upon receipt of payment.

Our policy on sales to certain distributors, with rights of return, is to defer recognition of revenue and related cost of revenue until the distributors resell the product.

Our customer programs primarily involve rebates, which are designed to serve as sales incentives to resellers of our products in various target markets. We accrue for 100% of the potential rebates and do not apply a breakage factor. We recognize a liability for these rebates at the later of the date at which we record the related revenue or the date at which we offer the rebate. Rebates typically expire six months from the date of the original sale, unless we reasonably believe that the customer intends to claim the rebate. Unclaimed rebates are reversed to revenue.

NVIDIA CORPORATION AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)  
(Unaudited)

Our customer programs also include marketing development funds, or MDFs. We account for MDFs as either a reduction of revenue or an operating expense. MDFs represent monies paid to retailers, system builders, original equipment manufacturers, or OEMs, distributors and add-in card partners that are earmarked for market segment development and expansion and typically are designed to support our partners' activities while also promoting NVIDIA products. Depending on market conditions, we may take actions to increase amounts offered under customer programs, possibly resulting in an incremental reduction of revenue at the time such programs are offered.

We also record a reduction to revenue by establishing a sales return allowance for estimated product returns at the time revenue is recognized, based primarily on historical return rates. However, if product returns for a particular fiscal period exceed historical return rates we may determine that additional sales return allowances are required to properly reflect our estimated exposure for product returns.

#### License and Development Revenue

For license arrangements that require significant customization of our intellectual property components, we generally recognize this license revenue over the period that services are performed. For all license and service arrangements, we determine progress to completion based on actual direct labor hours incurred to date as a percentage of the estimated total direct labor hours required to complete the project. We periodically evaluate the actual status of each project to ensure that the estimates to complete each contract remain accurate. A provision for estimated losses on contracts is made in the period in which the loss becomes probable and can be reasonably estimated. Costs incurred in advance of revenue recognized are recorded as deferred costs on uncompleted contracts. If the amount billed exceeds the amount of revenue recognized, the excess amount is recorded as deferred revenue. Revenue recognized in any period is dependent on our progress toward completion of projects in progress. Significant management judgment and discretion are used to estimate total direct labor hours. Any changes in or deviations from these estimates could have a material effect on the amount of revenue we recognize in any period.

#### Inventories

Inventory cost is computed on an adjusted standard basis, which approximates actual cost on an average or first-in, first-out basis. Inventory costs consist primarily of the cost of semiconductors purchased from subcontractors, including wafer fabrication, assembly, testing and packaging, manufacturing support costs, including labor and overhead associated with such purchases, final test yield fallout, inventory provisions and shipping costs. We write down our inventory to the lower of cost or estimated market value. Obsolete or unmarketable inventory is completely written off based upon assumptions about future demand, future product purchase commitments, estimated manufacturing yield levels and market conditions. We also write off inventory in excess of forecasted future demand. If actual market conditions are less favorable than those projected by management, or if our future product purchase commitments to our suppliers exceed our forecasted future demand for such products, additional future inventory write-downs may be required that could adversely affect our operating results. Inventory reserves once established are not reversed until the related inventory has been sold or scrapped. So if actual market conditions are more favorable in the fiscal periods subsequent to that in which we record larger than normal inventory reserves, we may have higher gross margins when products are sold. Sales of such items improved gross profit margin by approximately 3% for the third quarter of fiscal year 2011 and were largely offset by additional inventory write off attributed to the current quarter.

Adoption of New Accounting Pronouncements

Variable Interest Entities

During the first quarter of fiscal year 2011, we adopted new accounting guidance which amends the evaluation criteria to identify the primary beneficiary of a variable interest entity, or VIE, and requires ongoing reassessment of whether an enterprise is the primary beneficiary of the VIE. The new guidance changes the consolidation rules for VIEs, including the consolidation of common structures, such as joint ventures, equity method investments and collaboration arrangements. The guidance is applicable to all new and existing VIEs. The adoption of this new accounting guidance did not have a material impact on our consolidated financial position, results of operations or financial condition.

NVIDIA CORPORATION AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)  
(Unaudited)

#### Improving Disclosures About Fair Value Measurements

During the first quarter of fiscal year 2011, we adopted new accounting guidance which requires additional disclosures about items transferring into and out of levels 1 and 2 in the fair value hierarchy; adding separate disclosures about purchases, sales, issuances, and settlements relative to level 3 measurements; and clarifying, among other things, the existing fair value disclosures about the level of disaggregation. This new guidance is effective for interim and annual reporting periods beginning after December 15, 2009, except for the requirement to provide level 3 activity of purchases, sales, issuances, and settlements on a gross basis, which is effective for fiscal years beginning after December 15, 2010. The adoption of this new accounting guidance impacts only disclosure requirements and did not have an impact on our consolidated financial position, results of operations or financial condition.

#### Revenue Recognition

In September 2009, the Financial Accounting Standards Board, or FASB, issued new accounting guidance related to the revenue recognition of multiple element arrangements. The new guidance states that if vendor specific objective evidence or third party evidence for deliverables in an arrangement cannot be determined, companies will be required to develop a best estimate of the selling price to separate deliverables and allocate arrangement consideration using the relative selling price method. In addition, the FASB also issued new accounting guidance related to certain revenue arrangements that include software elements. Previously, companies that sold tangible products with “more than incidental” software were required to apply software revenue recognition guidance. This guidance often delayed revenue recognition for the delivery of the tangible product. Under the new guidance, tangible products that have software components that are “essential to the functionality” of the tangible product will be excluded from the software revenue recognition guidance. The new guidance will include factors to help companies determine what is “essential to the functionality.” Software-enabled products will now be subject to other revenue guidance and will follow the guidance for multiple deliverable arrangements issued by the FASB in September 2009 as described above.

We elected to early adopt this accounting guidance at the beginning of the first quarter of fiscal year 2011 on a prospective basis. We did not have a significant change in units of accounting, allocation methodology, or timing of revenue recognition. As a result, the adoption of these accounting standards did not have a material impact on our consolidated financial position, results of operations or financial condition.

#### Recently Issued Accounting Pronouncements

During the nine months ended October 31, 2010, there was no recent issuance of accounting pronouncements as compared to those described in the Annual Report on Form 10-K for the fiscal year ended January 31, 2010, that are of significance, or have potential material significance to us.

#### Note 2 – Stock Option Purchase

During the three months ended April 26, 2009, we completed a cash tender offer for certain employee stock options. The tender offer applied to outstanding stock options held by employees with an exercise price equal to or greater than \$17.50 per share. None of the non-employee members of our Board of Directors or our officers who file reports under Section 16(a) of the Securities Exchange Act of 1934, as amended, or the Securities Exchange Act, were eligible to

participate in the tender offer. All eligible options with exercise prices equal to or greater than \$17.50 per share but less than \$28.00 per share were eligible to receive a cash payment of \$3.00 per option in exchange for the cancellation of the eligible option. All eligible options with exercise prices equal to or greater than \$28.00 per share were eligible to receive a cash payment of \$2.00 per option in exchange for the cancellation of the eligible option.

NVIDIA CORPORATION AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)  
(Unaudited)

Our consolidated statement of operations for the first quarter of fiscal year 2010 includes stock-based compensation charges related to the stock option purchase (in thousands):

Cost of revenue	\$ 11,412
Research and development	90,456
Sales, general and administrative	38,373
Total	\$ 140,241

A total of 28.5 million options were tendered under the offer for an aggregate cash purchase price of \$78.1 million, which was paid in exchange for the cancellation of the eligible options. As a result of the tender offer, we incurred a charge of \$140.2 million consisting of \$124.1 million related to the remaining unamortized stock based compensation expense associated with the unvested portion of the options tendered in the offer, \$11.6 million related to stock-based compensation expense resulting from amounts paid in excess of the fair value of the underlying options, plus \$4.5 million related to associated payroll taxes, professional fees and other costs.

### Note 3 - Stock-Based Compensation

We measure stock-based compensation expense at the grant date of the related equity awards, based on the fair value of the awards, and recognize the expense using the straight-line attribution method over the requisite employee service period adjusted for estimated forfeitures. We estimate the fair value of employee stock options on the date of grant using a binomial model and we use the closing trading price of our common stock on the date of grant as the fair value of awards of restricted stock units, or RSUs. We calculate the fair value of our employee stock purchase plan using the Black-Scholes model.

In addition to the stock-based compensation expense related to our cash tender offer to purchase certain employee stock options as described in Note 2 – Stock Option Purchase, our consolidated statements of operations include stock-based compensation expense, net of amounts capitalized as inventory, as follows:

	Three Months Ended		Nine Months Ended	
	October 31, 2010	October 25, 2009	October 31, 2010	October 25, 2009
Cost of revenue	\$ 2,490	\$ 2,650	\$ 6,582	\$ 9,708
Research and development	\$ 14,104	\$ 12,853	\$ 43,251	\$ 47,391
Sales, general and administrative	\$ 8,585	\$ 7,479	\$ 25,155	\$ 25,372

During the three and nine months ended October 31, 2010, we granted approximately 3.0 million and 5.7 million stock options, respectively, with an estimated total grant-date fair value of \$13.7 million and \$33.5 million, respectively, and a per option weighted average grant-date fair value of \$4.60 and \$5.90, respectively. During the three and nine months ended October 31, 2010, we granted approximately 3.9 million and 6.8 million RSUs, respectively, with an estimated total grant-date fair value of \$40.8 million and \$91.9 million, respectively, and a per RSU weighted average grant-date fair value of \$10.53 and \$13.50, respectively.



During the three and nine months ended October 25, 2009, we granted approximately 2.2 million and 7.6 million stock options, respectively, with an estimated total grant-date fair value of \$14.9 million and \$43.7 million, respectively, and a per option weighted average grant-date fair value of \$6.59 and \$5.75, respectively. During the three and nine months ended October 25, 2009, we granted approximately 2.7 million and 7.5 million RSUs, with an estimated total grant-date fair value of \$41.9 million and \$90.7 million, respectively, and a per RSU weighted average grant-date fair value of \$15.76 and \$12.16 respectively.

Of the estimated total grant-date fair value, we estimated that the stock-based compensation expense related to the equity awards that are not expected to vest was \$9.9 million and \$22.9 million, respectively, for the three and nine months ended October 31, 2010. As of October 31, 2010, and October 25, 2009, the aggregate amount of unearned stock-based compensation expense related to our equity awards was \$164.7 million and \$142.9 million, respectively, adjusted for estimated forfeitures. As of October 31, 2010 and October 25, 2009, we expect to recognize the unearned stock-based compensation expense related to stock options over an estimated weighted average amortization period of 1.8 years and 2.0 years, respectively. As of each of October 31, 2010 and October 25, 2009, we expect to recognize the unearned stock-based compensation expense related to RSUs over an estimated weighted average amortization period of 2.6 years.

NVIDIA CORPORATION AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)  
(Unaudited)

## Valuation Assumptions

We utilize a binomial model for calculating the estimated fair value of new stock-based compensation awards granted under our stock option plans. We have determined that the use of implied volatility is reflective of market conditions and, therefore, is a reasonable indicator of our expected volatility. We also segregate options into groups of employees with relatively homogeneous exercise behavior in order to calculate the best estimate of fair value using the binomial valuation model. As such, the expected term assumption used in calculating the estimated fair value of our stock-based compensation awards using the binomial model is based on detailed historical data about employees' exercise behavior, vesting schedules, and death and disability probabilities. Our management believes the resulting binomial calculation provides a reasonable estimate of the fair value of our employee stock options. For our employee stock purchase plan we continue to use the Black-Scholes model.

We estimate forfeitures at the time of grant and revise the estimates of forfeiture, if necessary, in subsequent periods if actual forfeitures differ from those estimates. Forfeitures are estimated based on historical experience.

The fair value of stock options granted under our stock option plans and shares issued under our employee stock purchase plan have been estimated at the date of grant with the following assumptions:

	Three Months Ended		Nine Months Ended	
	October 31, 2010	October 25, 2009	October 31, 2010	October 25, 2009
Stock Options	(Using a binomial model)			
Expected life (in years)	4.0-5.5	3.9-5.7	3.1-6.7	3.6-5.8
Risk free interest rate	1.9-2.7 %	2.5-2.8 %	1.9-3.0 %	1.8-2.8 %
Volatility	46-47 %	48-49 %	43-53 %	48-72 %
Dividend yield	-	-	-	-
	Three Months Ended		Nine Months Ended	
	October 31, 2010	October 25, 2009	October 31, 2010	October 25, 2009
Employee Stock Purchase Plan	(Using a Black-Scholes model)			
Expected life (in years)	0.5-2.0	0.5-2.0	0.5-2.0	0.5-2.0
Risk free interest rate	0.2-0.5 %	0.2-0.9 %	0.2-0.8 %	0.2-1.0 %
Volatility	47 %	53 %	45-47 %	53-73 %
Dividend yield	-	-	-	-

## Equity Award Activity

The following summarizes the stock option and RSU activities under our equity incentive plans:

	Options Outstanding	Weighted Average Exercise Price
	(In thousands)	(Per Share)
Stock Options		
Balances, January 31, 2010	58,348	\$ 11.30
Granted	5,690	\$ 13.73
Exercised	(9,454)	\$ 8.05
Cancelled	(1,388)	\$ 12.11
Balances, October 31, 2010	53,196	\$ 12.12

NVIDIA CORPORATION AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)  
(Unaudited)

Restricted Stock Units	RSUs (In thousands)	Weighted Average Grant-date fair value (Per Share)
Balances, January 31, 2010	7,489	\$ 12.28
Granted	6,805	\$ 13.50
Vested	(3,216)	\$ 11.74
Cancelled	(509)	\$ 13.97
Balances, October 31, 2010	10,569	\$ 13.15

The following summarizes the stock options and RSUs, or equity awards, available for grant under our equity incentive plans (in thousands):

Balances, January 31, 2010	44,022
Stock options:	
Granted	(5,690)
Cancelled	1,388
Restricted Stock Units:	
Granted	(6,805)
Cancelled	509
Balances, October 31, 2010	33,424

#### Note 4 – Net Loss Per Share

The following is a reconciliation of the numerators and denominators of the basic and diluted net loss per share computations for the periods presented:

	Three Months Ended		Nine Months Ended	
	October 31, 2010	October 25, 2009	October 31, 2010	October 25, 2009
	(In thousands, except per share data)			
Numerator:				
Net Income (loss)	\$84,862	\$107,577	\$81,495	\$(199,063 )
Denominator:				
Denominator for basic net income (loss) per share, weighted average shares	577,323	551,283	572,420	546,737
Effect of dilutive securities:				
Equity awards outstanding	5,325	23,098	12,080	-
Denominator for diluted net income (loss) per share, weighted average shares	582,648	574,381	584,500	546,737
Net Income (loss) per share:				
Basic net income (loss) per share	\$0.15	\$0.20	\$0.14	\$(0.36 )

Diluted net income (loss) per share	\$0.15	\$0.19	\$0.14	\$(0.36)
-------------------------------------	--------	--------	--------	----------

Diluted net income (loss) per share for the three and nine months ended October 31, 2010 does not include the effect of anti-dilutive common equivalent shares from 40.3 million and 27.9 million outstanding stock options and RSUs, respectively. Diluted net income per share for the three months ended October 25, 2009 does not include the effect of anti-dilutive common equivalent shares from 20.3 million stock options and RSUs. All of our outstanding stock options and RSUs were anti-dilutive during the nine months ended October 25, 2009 and were excluded from the computation of diluted earnings per share due to the net loss for the nine months ended October 25, 2009.

NVIDIA CORPORATION AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)  
(Unaudited)

Note 5 – Income Taxes

We recognized income tax expense (benefit) of \$18.7 million and \$3.8 million for the three and nine months ended October 31, 2010, respectively, and \$2.6 million and \$(22.7) million for the three and nine months ended October 25, 2009, respectively. Income tax expense (benefit) as a percentage of income (loss) before taxes, or our effective tax rate, was 18.1% and 4.4% for the three and nine months ended October 31, 2010, respectively, and 2.4% and 10.2% for the three and nine months ended October 25, 2009, respectively.

Our effective tax rate on income before tax for the first nine months of fiscal year 2011 of 4.4% was lower than the United States federal statutory rate of 35% primarily due to income earned in jurisdictions where the tax rate is lower than the United States federal statutory tax rate and favorable discrete events that occurred in the first nine months of fiscal year 2011 primarily attributable to the expiration of statutes of limitations in certain non-U.S. jurisdictions for which we had not previously recognized related tax benefits. The U.S. federal research tax credit expired on December 31, 2009. We will recognize the tax benefit of the U.S. federal research tax credit if and when reenacted into law.

The expected tax benefit derived from our loss before tax for the first nine months of fiscal year 2010 at the United States federal statutory rate of 35% differs from our actual effective tax rate of 10.2% primarily due to permanent tax differences related to stock-based compensation and losses recognized in tax jurisdictions where no tax benefit has been recognized, partially offset by the U.S. tax benefit of the federal research tax credit. Our actual effective tax rate was also impacted by discrete events in the first nine months of fiscal year 2010, primarily related to our stock option purchase completed in March 2009 and the favorable impact from the expiration of statutes of limitations in certain non-U.S. jurisdictions.

For the nine months ended October 31, 2010, there have been no material changes to our tax years that remain subject to examination by major tax jurisdictions. Additionally, there have been no material changes to our unrecognized tax benefits and any related interest or penalties from our fiscal year ended January 31, 2010, other than the recognition of tax benefits related to the expiration of statutes of limitations in certain non-U.S. jurisdictions in the nine months ended October 31, 2010.

While we believe that we have adequately provided for all uncertain tax positions, amounts asserted by tax authorities could be greater or less than our accrued position. Accordingly, our provisions on federal, state and foreign tax related matters to be recorded in the future may change as revised estimates are made or the underlying matters are settled or otherwise resolved with the respective tax authorities. As of October 31, 2010, we do not believe that our estimates, as otherwise provided for, on such tax positions will significantly increase or decrease within the next twelve months.

Note 6 - Marketable Securities

All of our cash equivalents and marketable securities are classified as “available-for-sale” securities. These securities are reported at fair value with the related unrealized gains and losses included in accumulated other comprehensive income, a component of stockholders’ equity, net of tax.

We performed an impairment review of our investment portfolio as of October 31, 2010. Based on our quarterly impairment review and having considered the guidance in the relevant accounting literature, we did not record any other than temporary impairment charges during the first nine months of fiscal year 2011. We concluded that our investments were appropriately valued and that no additional other than temporary impairment charges were necessary on our portfolio of available for sale investments as of October 31, 2010. The following is a summary of cash equivalents and marketable securities at October 31, 2010 and January 31, 2010:

NVIDIA CORPORATION AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)  
(Unaudited)

	October 31, 2010			
	Amortized Cost	Unrealized Gain	Unrealized Loss	Estimated Fair Value
(In thousands)				
Debt securities of United States government agencies	\$ 507,621	\$ 1,727	\$ (4)	\$ 509,344
Corporate debt securities	662,886	4,312	(26)	667,172
Mortgage backed securities issued by United States government-sponsored enterprises	140,404	4,551	-	144,955
Money market funds	28,848	-	-	28,848
Debt securities issued by United States Treasury	376,899	2,455	(8)	379,346
<b>Total</b>	<b>\$ 1,716,658</b>	<b>\$ 13,045</b>	<b>\$ (38)</b>	<b>\$ 1,729,665</b>
Classified as:				
Cash equivalents				\$ 193,619
Marketable securities				1,536,046
<b>Total</b>				<b>\$ 1,729,665</b>

	January 31, 2010			
	Amortized Cost	Unrealized Gain	Unrealized Loss	Estimated Fair Value
(In thousands)				
Debt securities of United States government agencies	\$ 492,628	\$ 3,606	\$ (29)	\$ 496,205
Corporate debt securities	514,200	4,064	(44)	518,220
Mortgage backed securities issued by United States government-sponsored enterprises	162,692	3,674	(13)	166,353
Money market funds	94,340	-	-	94,340
Debt securities issued by United States Treasury	316,520	1,318	-	317,838
Asset-backed securities	17	-	-	17
<b>Total</b>	<b>\$ 1,580,397</b>	<b>\$ 12,662</b>	<b>\$ (86)</b>	<b>\$ 1,592,973</b>
Classified as:				
Cash equivalents				\$ 311,967
Marketable securities				1,281,006
<b>Total</b>				<b>\$ 1,592,973</b>

The amortized cost and estimated fair value of cash equivalents and marketable securities which are primarily debt instruments, are classified as available-for-sale at October 31, 2010 and January 31, 2010 and are shown below by contractual maturity.

	October 31, 2010		January 31, 2010	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
(In thousands)				
Less than one year	\$ 874,807	\$ 877,051	\$ 785,642	\$ 788,825



Edgar Filing: NVIDIA CORP - Form 10-Q

Due in 1 - 5 years	793,227	802,537	729,885	738,124
Mortgage-backed securities issued by government-sponsored enterprises not due at a single maturity date	48,624	50,077	64,870	66,024
Total	\$ 1,716,658	\$ 1,729,665	\$ 1,580,397	\$ 1,592,973

Net realized gains for the three and nine months ended October 31, 2010, were \$0.3 million and \$1.3 million, respectively. Net realized gains for the three and nine months ended October 25, 2009, were \$0.5 million and \$1.5 million, respectively.

NVIDIA CORPORATION AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)  
(Unaudited)

As of October 31, 2010, we held a money market investment in the Reserve International Liquidity Fund, Ltd., or the International Reserve Fund, which was valued at \$13.0 million, after a \$5.6 million other than temporary impairment charge that we recorded during fiscal year 2009. The International Reserve Fund was reclassified out of cash and cash equivalents in our Condensed Consolidated Balance Sheet due to the halting of redemption requests in September 2008 by the International Reserve Fund. The \$13.0 million value of our holdings in the International Reserve Fund as of October 31, 2010 reflects an initial investment of \$130.0 million, reduced by \$111.4 million that we received from the International Reserve Fund during fiscal year 2010 and the \$5.6 million other than temporary impairment charge we recorded against the value of this investment during fiscal year 2009 as a result of credit loss. The \$111.4 million we received was our portion of a payout of approximately 85.6% of the total assets of the International Reserve Fund. All of the underlying securities held by the International Reserve Fund had matured by October 2009. We expect to ultimately receive the proceeds from our remaining investment in the International Reserve Fund, excluding some or all of the \$5.6 million impairment charges. However, redemptions from the International Reserve Fund are currently subject to pending litigation, which could cause further delay in receipt of our funds.

Note 7 – Fair Value of Cash Equivalents and Marketable Securities

We measure our cash equivalents and marketable securities at fair value. The fair values of our financial assets and liabilities are determined using quoted market prices of identical assets or quoted market prices of similar assets from active markets. Our Level 1 assets consist of our money market fund deposits. We classify securities within Level 1 assets when the fair value is obtained from real time quotes for transactions in active exchange markets involving identical assets. Our available-for-sale securities are classified as having Level 2 inputs. Our Level 2 assets are valued utilizing a market approach where the market prices of similar assets are provided by a variety of independent industry standard data providers to our investment custodian. There were no significant transfers between Levels 1 and 2 assets for the nine months ended October 31, 2010. Level 3 assets are based on unobservable inputs to the valuation methodology and include our own data about assumptions market participants would use in pricing the asset or liability based on the best information available under the circumstances.

Financial assets and liabilities measured at fair value are summarized below:

	October 31, 2010	Fair value measurement at reporting date using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	High Level of Judgment (Level 3)
(In thousands)				
Debt securities issued by US Government agencies (1)	\$ 509,344	\$ -	\$ 509,344	\$ -
Debt securities issued by United States Treasury (2)	379,346	-	379,346	-
Corporate debt securities (3)	667,172	-	667,172	-
Mortgage-backed securities issued by Government-sponsored entities (4)	144,955	-	144,955	-

Money market funds (5)	28,848	15,889	-	12,959
Total cash equivalents and marketable securities	\$ 1,729,665	\$ 15,889	\$ 1,700,817	\$ 12,959

- (1) Includes \$92.1 million in Cash Equivalents and \$417.2 million in Marketable Securities on the Condensed Consolidated Balance Sheet.
- (2) Includes \$47.4 million in Cash Equivalents and \$331.9 million in Marketable Securities on the Condensed Consolidated Balance Sheet.
- (3) Includes \$38.2 million in Cash Equivalents and \$628.9 million in Marketable Securities on the Condensed Consolidated Balance Sheet.
- (4) Included in Marketable Securities on the Condensed Consolidated Balance Sheet.
- (5) Includes \$15.9 million in Cash Equivalents and \$13.0 million in Marketable Securities on the Condensed Consolidated Balance Sheet.

NVIDIA CORPORATION AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)  
(Unaudited)

For our money market funds that were held by the International Reserve Fund at October 31, 2010, we assessed the fair value of the money market funds by considering the underlying securities held by the International Reserve Fund. The International Reserve Fund has halted redemption requests due to pending litigation. All of the underlying securities held by the International Reserve Fund had matured by October 2009. We valued the underlying securities held by the International Reserve Fund at their maturity value using an income approach. Certain of the debt securities held by the International Reserve Fund were issued by companies that had filed for bankruptcy during fiscal year 2009 and, as such, our valuation of those securities was zero. The net result was that, during the third quarter of fiscal year 2009, we estimated the fair value of the International Reserve Fund's investments to be 95.7% of their last-known value and we recorded an other than temporary impairment charge of \$5.6 million as a result of credit loss. The \$13.0 million value of our holdings in the International Reserve Fund as of October 31, 2010 reflects an initial investment of \$130.0 million, reduced by \$111.4 million that we received from the International Reserve Fund during fiscal year 2010 and the \$5.6 million other than temporary impairment charge we recorded against the value of this investment during fiscal year 2009 as a result of credit loss. Due to the inherent subjectivity and the significant judgment involved in the valuation of our holdings of the International Reserve Fund, we have classified these securities under the Level 3 fair value hierarchy.

Reconciliation of financial assets measured at fair value on a recurring basis using significant unobservable inputs, or Level 3 inputs (in thousands):

Balance, beginning of period, January 31, 2010	\$ 12,959
Transfer into Level 3	-
Other than temporary impairment	-
Redemption of funds	-
Balance, end of period, October 31, 2010	\$ 12,959

Total financial assets at fair value classified within Level 3 were 0.3% of total assets on our Condensed Consolidated Balance Sheet as of October 31, 2010.

Note 8 - 3dfx

During fiscal year 2002, we completed the purchase of certain assets from 3dfx Interactive, Inc., or 3dfx, for an aggregate purchase price of approximately \$74.2 million. On December 15, 2000, NVIDIA Corporation and one of our indirect subsidiaries entered into an Asset Purchase Agreement, or the APA, which closed on April 18, 2001, to purchase certain graphics chip assets from 3dfx.

In October 2002, 3dfx filed for Chapter 11 bankruptcy protection in the United States Bankruptcy Court for the Northern District of California. In March 2003, the Trustee appointed by the Bankruptcy Court to represent 3dfx's bankruptcy estate served his complaint on NVIDIA. The Trustee's complaint asserted claims for, among other things, successor liability and fraudulent transfer and sought additional payments from us. In early November 2005, NVIDIA and the Official Committee of Unsecured Creditors, or the Creditors' Committee, agreed to a Plan of Liquidation of 3dfx, which included a conditional settlement of the Trustee's claims against us. This conditional settlement was subject to a confirmation process through a vote of creditors and the review and approval of the

Bankruptcy Court. The conditional settlement called for a payment by NVIDIA of approximately \$30.6 million to the 3dfx estate. Under the settlement, \$5.6 million related to various administrative expenses and Trustee fees, and \$25.0 million related to the satisfaction of debts and liabilities owed to the general unsecured creditors of 3dfx. Accordingly, during the three month period ended October 30, 2005, we recorded \$5.6 million as a charge to settlement costs and \$25.0 million as additional purchase price for 3dfx. The Trustee advised that he intended to object to the settlement.

The conditional settlement reached in November 2005 never progressed through the confirmation process and the Trustee's case still remains pending appeal. As such, we have not reversed the accrual of \$30.6 million - \$5.6 million as a charge to settlement costs and \$25.0 million as additional purchase price for 3dfx – that we recorded during the three months ended October 30, 2005, pending resolution of the appeal of the Trustee's case.

NVIDIA CORPORATION AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)  
(Unaudited)

The 3dfx asset purchase price of \$95.0 million and \$4.2 million of direct transaction costs were allocated based on fair values presented below. The final allocation of the purchase price of the 3dfx assets is contingent upon the outcome of all of the 3dfx litigation. Please refer to Note 12 of these Notes to the Condensed Consolidated Financial Statements for further information regarding this litigation.

	Fair Market Value (In thousands)	Straight-Line Amortization Period (Years)
Property and equipment	\$ 2,433	1-2
Trademarks	11,310	5
Goodwill	85,418	-
Total	\$ 99,161	

#### Note 9 - Intangible Assets

The components of our amortizable intangible assets are as follows:

	October 31, 2010			January 31, 2010		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
	(In thousands)					
Technology licenses	\$ 136,466	\$ (58,795)	\$ 77,671	\$ 135,112	\$ (48,337)	\$ 86,775
Acquired intellectual property	76,264	(58,319)	17,945	75,339	(49,838)	25,501
Patents	31,098	(14,072)	17,026	19,347	(11,165)	8,182
Total intangible assets	\$ 243,828	\$ (131,186)	\$ 112,642	\$ 229,798	\$ (109,340)	\$ 120,458

Amortization expense associated with intangible assets for the three and nine months ended October 31, 2010 was \$7.6 million and \$21.9 million, respectively. Amortization expense associated with intangible assets for the three and nine months ended October 25, 2009 was \$7.9 million and \$24.1 million, respectively. Future amortization expense related to the net carrying amount of intangible assets at October 31, 2010 is estimated to be \$7.5 million for the remainder of fiscal year 2011, \$27.9 million in fiscal year 2012, \$21.1 million in fiscal year 2013, \$21.6 million in fiscal year 2014, \$14.6 million in fiscal year 2015, and a total of \$19.9 million in fiscal year 2016 and fiscal years subsequent of fiscal 2016.

#### Note 10 - Balance Sheet Components

Certain balance sheet components are as follows:

	October 31, 2010	January 31, 2010
Inventories:		
	(In thousands)	
Raw materials	\$ 94,877	\$ 76,935
Work in-process	61,397	67,502
Finished goods	221,538	186,237
Total inventories	\$ 377,812	\$ 330,674

At October 31, 2010, we had outstanding inventory purchase obligations totaling approximately \$448.7 million.

NVIDIA CORPORATION AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)  
(Unaudited)

	October 31, 2010	January 31, 2010
	(In thousands)	
Prepaid Expenses and Other		
Prepaid maintenance	\$ 11,755	\$ 15,153
Prepaid insurance	5,216	5,389
Prepaid taxes	3,574	3,574
Prepaid rent	3,545	3,352
Other	10,326	10,746
Total prepaid expenses and other	\$ 34,416	\$ 38,214

	October 31, 2010	January 31, 2010
	(In thousands)	
Accrued Liabilities:		
Accrued customer programs (1)	\$ 180,768	\$ 212,107
Warranty accrual (2)	150,666	92,655
Accrued payroll and related expenses	52,895	54,915
Accrued legal settlement (3)	30,600	30,600
Deferred rent	6,164	10,245
Deferred revenue	27,336	9,379
Income taxes payable	8,680	1,784
Other	34,610	28,166
Total accrued liabilities and other	\$ 491,719	\$ 439,851

(1) Please refer to Note 1 of these Notes to Condensed Consolidated Financial Statements for discussion regarding the nature of accrued customer programs and their accounting treatment related to our revenue recognition policies and estimates.

(2) Please refer to Note 11 of these Notes to Condensed Consolidated Financial Statements for discussion regarding the warranty accrual.

(3) Please refer to Note 12 of these Notes to Condensed Consolidated Financial Statements for discussion regarding the 3dfx litigation.

	October 31, 2010	January 31, 2010
	(In thousands)	
Other Long-term Liabilities:		
Deferred income tax liability	\$ 47,245	\$ 17,739
Income taxes payable, long term	53,567	53,397
Asset retirement obligation	9,687	10,638
Other long-term liabilities	67,352	30,176
Total other long-term liabilities	\$ 177,851	\$ 111,950



Note 11 - Guarantees

U.S. GAAP, requires that upon issuance of a guarantee, the guarantor must recognize a liability for the fair value of the obligation it assumes under that guarantee. In addition, U.S. GAAP requires disclosures about the guarantees that an entity has issued, including a tabular reconciliation of the changes of the entity's product warranty liabilities.

Product Defect

Our products are complex and may contain defects or experience failures due to any number of issues in design, fabrication, packaging, materials and/or use within a system. If any of our products or technologies contains a defect, compatibility issue or other error, we may have to invest additional research and development efforts to find and correct the issue. Such efforts could divert our management's and engineers' attention from the development of new products and technologies and could increase our operating costs and reduce our gross margin. In addition, an error or defect in new products or releases or related software drivers after commencement of commercial shipments could result in failure to achieve market acceptance or loss of design wins. Also, we may be required to reimburse customers, including for customers' costs to repair or replace the products in the field, which could cause our revenue to decline. A product recall or a significant number of product returns could be expensive, damage our reputation and could result in the shifting of business to our competitors. Costs associated with correcting defects, errors, bugs or other issues could be significant and could materially harm our financial results.

NVIDIA CORPORATION AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)  
(Unaudited)

During the second quarter of fiscal year 2011, we recorded an additional charge to cover the estimated remaining customer warranty, repair, return, replacement and other costs arising from a weak die/package material set in certain versions of our previous generation media and communications processor, or MCP, and graphics processing unit, or GPU, products used in notebook configurations. The net charge amounted to \$193.9 million, of which \$181.2 million was charged against cost of revenue. The extra remediation costs are primarily due to additional platforms from late failing systems that we had not previously considered to be at risk. Included in the charge are the estimated costs of implementing a settlement reached during the second quarter of fiscal year 2011 with the plaintiffs of a putative consumer class action lawsuit related to this same matter and another related estimated consumer class action settlement. As a result of this settlement, the other estimated settlement, and offsetting insurance reimbursements, we recorded a net charge of \$12.7 million to sales, general and administrative expense during the second quarter of fiscal year 2011. Together with the \$282.0 million net charge we had previously recorded for related estimated costs, this brings the total cumulative net charge to \$475.9 million, of which \$466.4 million has been charged against cost of revenue.

The previous generation MCP and GPU products that are impacted were included in a number of notebook products that were shipped and sold in significant quantities. Certain notebook configurations of these products are failing in the field at higher than normal rates. Testing suggests a weak material set of die/package combination, system thermal management designs, and customer use patterns are contributing factors for these failures. We have worked with our customers to develop and have made available for download a software driver to cause the system fan to begin operation at the powering up of the system and reduce the thermal stress on these chips. We have also recommended to our customers that they consider changing the thermal management of the products in their notebook system designs. We intend to fully support our customers in their repair and replacement of these impacted products that fail, and their other efforts to mitigate the consequences of these failures. The weak die/package material combination is not used in any of our products that are currently in production.

In September, October and November 2008, several putative securities class action lawsuits were filed against us, asserting various claims related to the impacted MCP and GPU products. Please refer to Note 12 of these Notes to the Condensed Consolidated Financial Statements for further information regarding this litigation and the settlement.

#### Accrual for product warranty liabilities

Cost of revenue includes the estimated cost of product warranties that are calculated at the point of revenue recognition. Under limited circumstances, we may offer an extended limited warranty to customers for certain products. Additionally, we accrue for known warranty and indemnification issues if a loss is probable and can be reasonably estimated. The estimated product warranty liabilities for the three and nine months ended October 31, 2010 and October 25, 2009 are as follows:

	Three Months Ended		Nine Months Ended	
	October 31, 2010	October 25, 2009	October 31, 2010	October 25, 2009
	(In thousands)			
Balance at beginning of period	\$ 203,689	\$ 221,903	\$ 92,655	\$ 150,629

Edgar Filing: NVIDIA CORP - Form 10-Q

Additions (1)	1,363	1,366	192,461	169,230
Deductions (2)	(54,386)	(64,742)	(134,450)	(161,332)
Balance at end of period	\$ 150,666	\$ 158,527	\$ 150,666	\$ 158,527

(1) Includes \$186,241 for the nine months ended October 31, 2010 and \$164,450 for the nine months ended October 25, 2009 for incremental repair and replacement costs from a weak die/packaging material set.

(2) Includes \$49,069 and \$113,888 for the three and nine months ended October 31, 2010, respectively, and \$56,776 and \$136,747 for the three and nine months ended October 25, 2009, respectively, in cash payments.

NVIDIA CORPORATION AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)  
(Unaudited)

In connection with certain agreements that we have executed in the past, we have at times provided indemnities to cover the indemnified party for matters such as tax, product and employee liabilities. We have also on occasion included intellectual property indemnification provisions in our technology related agreements with third parties. Maximum potential future payments cannot be estimated because many of these agreements do not have a maximum stated liability. As such, we have not recorded any liability in our Condensed Consolidated Financial Statements for such indemnifications. U.S. GAAP requires that upon issuance of a guarantee, the guarantor must recognize a liability for the fair value of the obligation it assumes under that guarantee. In addition, disclosures about the guarantees that an entity has issued, including a tabular reconciliation of the changes of the entity's product warranty liabilities are also required.

Note 12 - Commitments and Contingencies

3dfx

On December 15, 2000, NVIDIA and one of our indirect subsidiaries entered into an Asset Purchase Agreement, or APA, to purchase certain graphics chip assets from 3dfx. The transaction closed on April 18, 2001. That acquisition, and 3dfx's October 2002 bankruptcy filing, led to four lawsuits against NVIDIA: two brought by 3dfx's former landlords, one by 3dfx's bankruptcy trustee and the fourth by a committee of 3dfx's equity security holders in the bankruptcy estate. As of the date of the filing of this Quarterly Report on Form 10-Q, only the bankruptcy trustee suit remains outstanding as more fully explained below.

Landlord Lawsuits

In May 2002, we were served with a California state court complaint filed by the landlord of 3dfx's San Jose, California commercial real estate lease, Carlyle Fortran Trust, or Carlyle. In December 2002, we were served with a California state court complaint filed by the landlord of 3dfx's Austin, Texas commercial real estate lease, CarrAmerica Realty Corporation, or CarrAmerica. The landlords both asserted claims for, among other things, interference with contract, successor liability and fraudulent transfer. The landlords sought to recover damages in the aggregate amount of approximately \$15 million, representing amounts then owed on the 3dfx leases. The cases were later removed to the United States Bankruptcy Court for the Northern District of California when 3dfx filed its bankruptcy petition and consolidated for pretrial purposes with an action brought by the bankruptcy trustee.

In 2005, the U.S. District Court for the Northern District of California withdrew the reference to the Bankruptcy Court for the landlords' actions, and on November 10, 2005, granted our motion to dismiss both landlords' complaints. The landlords filed amended complaints in early February 2006, and NVIDIA again filed motions to dismiss those claims. On September 29, 2006, the District Court dismissed the CarrAmerica action in its entirety and without leave to amend. On December 15, 2006, the District Court also dismissed the Carlyle action in its entirety. Both landlords filed timely notices of appeal from those orders.

On July 17, 2008, the United States Court of Appeals for the Ninth Circuit held oral argument on the landlords' appeals. On November 25, 2008, the Court of Appeals issued its opinion affirming the dismissal of Carlyle's

complaint in its entirety. The Court of Appeals also affirmed the dismissal of most of CarrAmerica's complaint, but reversed the District Court's dismissal of CarrAmerica's claims for interference with contractual relations and fraud. On December 8, 2008, Carlyle filed a Request for Rehearing En Banc, which CarrAmerica joined. That same day, Carlyle also filed a Motion for Clarification of the Court's Opinion. On January 22, 2009, the Court of Appeals denied the Request for Rehearing En Banc, but clarified its opinion affirming dismissal of the claims by stating that CarrAmerica had standing to pursue claims for interference with contractual relations, fraud, conspiracy and tort of another, and remanding Carlyle's case with instructions that the District Court evaluate whether the Trustee had abandoned any claims, which Carlyle might have standing to pursue. On April 2, 2009, Carlyle filed a petition for a writ of certiorari in the United States Supreme Court, seeking review of the Court of Appeals decision. We filed an opposition to that petition on June 8, 2009. On October 5, 2009, the US Supreme Court denied Carlyle's petition.

The District Court held a status conference in the CarrAmerica and Carlyle cases on March 9, 2009. That same day, 3dfx's bankruptcy Trustee filed in the bankruptcy court a Notice of Trustee's Intention to Compromise Controversy with Carlyle Fortran Trust. According to that Notice, the Trustee would abandon any claims it has against us for intentional interference with contract, negligent interference with prospective economic advantage, aiding and abetting breach of fiduciary duty, declaratory relief, unfair business practices and tort of another, in exchange for which Carlyle would withdraw irrevocably its Proof of Claim against the 3dfx bankruptcy estate and waive any further right of distribution from the estate. In light of the Trustee's notice, the District Court ordered the parties to seek a hearing on the Notice on or before April 24, 2009, ordered Carlyle and CarrAmerica to file amended complaints by May 10, 2009, and set a further Case Management Conference for May 18, 2009. The parties subsequently filed a stipulation requesting that the District Court vacate the May 18, 2009 Case Management Conference date and other deadlines until after Bankruptcy Court rendered its decision. At a hearing on May 13, 2009, the Bankruptcy Court ruled that the Trustee had not abandoned any claims against us, and denied the Trustee's Notice of Intention to Compromise Controversy with Carlyle Fortran Trust without prejudice. Carlyle filed a motion in the District Court for leave to file an interlocutory appeal from the order denying the Notice, which was denied on November 12, 2009. On January 13, 2010, the District Court, of its own accord, reconsidered and reversed its decision denying Carlyle's motion for leave to file an interlocutory appeal, and set the interlocutory appeal for hearing on April 26, 2010. Carlyle's interlocutory appeal was argued on April 26, 2010. On June 17, 2010, the District Court issued an order reversing the bankruptcy court's decision, finding that the Trustee had abandoned his claims for intentional interference with contract, negligent interference with prospective economic advantage, aiding and abetting breach of fiduciary duty, declaratory relief, unfair business practices and tort of another. On July 8, 2010 we filed a motion in the District Court asking it to certify its order for appeal. In addition, on July 14, 2010 we filed a notice of appeal from the District Court's order.

NVIDIA CORPORATION AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)  
(Unaudited)

On July 7, 2009, the parties attended a Case Management Conference in the District Court for both the CarrAmerica and the Carlyle cases. On July 8, 2009, the District Court issued an order requiring that CarrAmerica file an amended complaint on or before August 10, 2009. CarrAmerica filed its amended complaint on August 10, 2009, alleging claims for interference with contractual relations, fraud, conspiracy, and tort of another. Thereafter, we filed motions directed at dismissing that Fourth Amended Complaint, and CarrAmerica responded by filing a Fifth Amended Complaint. NVIDIA moved to dismiss the Fifth Amended Complaint, but the District Court denied that motion by order dated January 27, 2010. In that same order, however, the Court invited the parties to move for summary judgment and set the motions for hearing on May 3, 2010. NVIDIA filed a motion for summary judgment on CarrAmerica's claims on March 29, 2010, and a hearing was held on May 3, 2010. On June 29, 2010, the District Court issued an order granting our motion for summary judgment, and entered judgment for NVIDIA. CarrAmerica did not file an appeal within the applicable time limits.

On August 19, 2010, we and the landlords participated in a mediation, and agreed to a settlement of both lawsuits. As part of the settlements, both lawsuits have been dismissed, the landlords were required to reimburse NVIDIA for a certain amount of NVIDIA's attorneys' fees, and NVIDIA withdrew its motion to certify and notice of appeal in the Carlyle case. Both the CarrAmerica and the Carlyle cases are now over.

#### Trustee Lawsuit

In March 2003, the Trustee appointed by the Bankruptcy Court to represent 3dfx's bankruptcy estate served his complaint on NVIDIA. The Trustee's complaint asserts claims for, among other things, successor liability and fraudulent transfer and seeks additional payments from us. The Trustee's fraudulent transfer theory alleged that NVIDIA had failed to pay reasonably equivalent value for 3dfx's assets, and sought recovery of the difference between the \$70 million paid and the alleged fair value, which the Trustee estimated to exceed \$50 million. The Trustee's successor liability theory alleged NVIDIA was effectively 3dfx's legal successor and was therefore responsible for all of 3dfx's unpaid liabilities. This action was consolidated for pretrial purposes with the landlord cases, as noted above.

On October 13, 2005, the Bankruptcy Court heard the Trustee's motion for summary adjudication, and on December 23, 2005, denied that motion in all material respects and held that NVIDIA may not dispute that the value of the 3dfx transaction was less than \$108 million. The Bankruptcy Court denied the Trustee's request to find that the value of the 3dfx assets conveyed to NVIDIA was at least \$108 million.

In early November 2005, after several months of mediation, NVIDIA and the Official Committee of Unsecured Creditors, or the Creditors' Committee, agreed to a Plan of Liquidation of 3dfx, which included a conditional settlement of the Trustee's claims against us. This conditional settlement was subject to a confirmation process through a vote of creditors and the review and approval of the Bankruptcy Court. The conditional settlement called for a payment by NVIDIA of approximately \$30.6 million to the 3dfx estate. Under the settlement, \$5.6 million related to various administrative expenses and Trustee fees, and \$25.0 million related to the satisfaction of debts and liabilities owed to the general unsecured creditors of 3dfx. Accordingly, during the three month period ended October 30, 2005, we recorded \$5.6 million as a charge to settlement costs and \$25.0 million as additional purchase price for 3dfx. The Trustee advised that he intended to object to the settlement. The conditional settlement never progressed substantially through the confirmation process.

On December 21, 2006, the Bankruptcy Court scheduled a trial for one portion of the Trustee's case against NVIDIA. On January 2, 2007, NVIDIA terminated the settlement agreement on grounds that the Bankruptcy Court had failed to proceed toward confirmation of the Creditors' Committee's plan. A non-jury trial began on March 21, 2007 on valuation issues in the Trustee's constructive fraudulent transfer claims against NVIDIA. Specifically, the Bankruptcy Court tried four questions: (1) what did 3dfx transfer to NVIDIA in the APA; (2) of what was transferred, what qualifies as "property" subject to the Bankruptcy Court's avoidance powers under the Uniform Fraudulent Transfer Act and relevant bankruptcy code provisions; (3) what is the fair market value of the "property" identified in answer to question (2); and (4) was the \$70 million that NVIDIA paid "reasonably equivalent" to the fair market value of that property. The parties completed post-trial briefing on May 25, 2007.

NVIDIA CORPORATION AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)  
(Unaudited)

On April 30, 2008, the Bankruptcy Court issued its Memorandum Decision After Trial, in which it provided a detailed summary of the trial proceedings and the parties' contentions and evidence and concluded that "the creditors of 3dfx were not injured by the Transaction." This decision did not entirely dispose of the Trustee's action; however, as the Trustee's claims for successor liability and intentional fraudulent conveyance were still pending. On June 19, 2008, NVIDIA filed a motion for summary judgment to convert the Memorandum Decision After Trial to a final judgment. That motion was granted in its entirety and judgment was entered in NVIDIA's favor on September 11, 2008. The Trustee filed a Notice of Appeal from that judgment on September 22, 2008, and on September 25, 2008, NVIDIA exercised its election to have the appeal heard by the United States District Court, where the appeal is pending. The District Court's hearing on the Trustee's appeal was held on June 10, 2009 and the appeal remains under submission.

While the conditional settlement reached in November 2005 never progressed through the confirmation process, the Trustee's case still remains pending on appeal. Accordingly, we have not reversed the accrual of \$30.6 million – \$5.6 million as a charge to settlement costs and \$25.0 million as additional purchase price for 3dfx – that we recorded during the three months ended October 30, 2005, pending resolution of the appeal of the Trustee's case.

Rambus Inc.

On July 10, 2008, Rambus Inc., or Rambus, filed suit against NVIDIA, asserting patent infringement of 17 patents claimed to be owned by Rambus. Rambus seeks damages, enhanced damages and injunctive relief. The lawsuit was filed in the Northern District of California in San Jose, California. On July 11, 2008, NVIDIA filed suit against Rambus in the Middle District of North Carolina asserting numerous claims, including antitrust and other claims. NVIDIA seeks damages, enhanced damages and injunctive relief. Rambus has since dropped two patents from its lawsuit in the Northern District of California. The two cases have been consolidated into a single proceeding in the Northern District of California. On April 13, 2009, the Court issued an order staying motion practice and allowing only document discovery to proceed. A case management conference was held on September 1, 2010, and a further case management conference is currently scheduled for January 28, 2011.

On November 6, 2008, Rambus filed a complaint alleging a violation of 19 U.S.C. Section 1337 based on a claim of patent infringement of nine Rambus patents against NVIDIA and 14 other respondents with the U.S. International Trade Commission, or ITC. Rambus has subsequently withdrawn four of the nine patents at issue. The complaint sought an exclusion order barring the importation of products that allegedly infringe the now five Rambus patents. The ITC instituted the investigation and a hearing was held on October 13-20, 2009. The Administrative Law Judge issued an Initial Determination on January 22, 2010, which found the asserted claims of two patents in one patent family infringed but invalid, and the asserted claims of three patents in a separate patent family, valid, infringed and enforceable. This decision was reviewed by the ITC. The ITC issued a Final Decision on July 26, 2010. In its Final Decision, the ITC found that NVIDIA infringed three related patents and issued a limited exclusion order prohibiting import of certain NVIDIA products. NVIDIA is appealing the ruling. Rambus is also appealing certain aspects of the ruling that were unfavorable to Rambus.

NVIDIA also sought reexamination of the patents asserted in the ITC, as well as other patents, in the United States Patent and Trademark Office, or USPTO. Proceedings are underway with respect to all challenged patents. With respect to the claims asserted in the ITC, the USPTO has issued a preliminary ruling invalidating many of the claims. The USPTO has issued "Right to Appeal Notices" for the three patents found by the administrative law judge



to be valid, enforceable and infringed. In the Right to Appeal Notices, the USPTO Examiner has cancelled all asserted claims of one of the patents and allowed the asserted claims on the other two patents. Rambus and NVIDIA are both seeking review of the USPTO Examiner's adverse findings. NVIDIA intends to pursue its offensive and defensive cases vigorously in both actions.

Rambus has also been subject to an investigation in the European Union. NVIDIA was not a party to that investigation, but has recently sought to intervene in the appeal of the investigation. As a result of Rambus' commitments to resolve that investigation, for a period of five years from the date of the resolution, Rambus must now provide a license to memory controller manufacturers, sellers, and/or companies that integrate memory controllers into other products. The license terms are set forth in a license made available on Rambus' website, or the Required Rambus License. On August 12, 2010, we entered into the Required Rambus License. Pursuant to the agreement, Rambus charges a royalty of (i) one percent of the net sales price per unit for certain memory controllers and (ii) two percent of the net sales price per unit for certain other memory controllers, provided that the maximum average net sales price per unit for these royalty bearing products shall be deemed not to exceed a maximum of \$20. The agreement has a term until December 9, 2014. However, NVIDIA may terminate the agreement on or after August 12, 2011 with thirty 30 days prior written notice to Rambus.

NVIDIA CORPORATION AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)  
(Unaudited)

On December 1, 2010, Rambus filed a new lawsuit against NVIDIA and several other companies alleging six claims for patent infringement. This lawsuit is pending in the Northern District of California. On the same day, Rambus filed a complaint with the ITC alleging that NVIDIA and several other companies violated 19 U.S.C. Section 1337 based on a claim of patent infringement of three Rambus patents. The asserted patents are related to each other, and the three patents in the ITC complaint are also at issue in the lawsuit pending in the Northern District of California. Many of the patents at issue in the new lawsuits are also being challenged in Rambus' other disputes with NVIDIA. NVIDIA intends to vigorously defend these new lawsuits.

#### Product Defect Litigation and Securities Cases

In September, October and November 2008, several putative consumer class action lawsuits were filed against us, asserting various claims arising from a weak die/package material set in certain versions of our previous generation products used in notebook configurations. Most of the lawsuits were filed in Federal Court in the Northern District of California, but three were filed in state court in California, in Federal Court in New York, and in Federal Court in Texas. Those three actions have since been removed or transferred to the United States District Court for the Northern District of California, San Jose Division, where all of the actions now are currently pending. The various lawsuits are titled *Nakash v. NVIDIA Corp.*, *Feinstein v. NVIDIA Corp.*, *Inicom Networks, Inc. v. NVIDIA Corp.* and *Dell, Inc. and Hewlett Packard, Olivos v. NVIDIA Corp.*, *Dell, Inc. and Hewlett Packard*, *Sielicki v. NVIDIA Corp.* and *Dell, Inc.*, *Cormier v. NVIDIA Corp.*, *National Business Officers Association, Inc. v. NVIDIA Corp.*, and *West v. NVIDIA Corp.* The First Amended Complaint was filed on October 27, 2008, which no longer asserted claims against Dell, Inc. The various complaints assert claims for, among other things, breach of warranty, violations of the Consumer Legal Remedies Act, Business & Professions Code sections 17200 and 17500 and other consumer protection statutes under the laws of various jurisdictions, unjust enrichment, and strict liability.

The District Court has entered orders deeming all of the above cases related under the relevant local rules. On December 11, 2008, NVIDIA filed a motion to consolidate all of the aforementioned consumer class action cases. On February 26, 2009, the District Court consolidated the cases, as well as two other cases pending against Hewlett-Packard, under the caption "The NVIDIA GPU Litigation" and ordered the plaintiffs to file lead counsel motions by March 2, 2009. On March 2, 2009, several of the parties filed motions for appointment of lead counsel and briefs addressing certain related issues. On April 10, 2009, the District Court appointed Milberg LLP lead counsel. On May 6, 2009, the plaintiffs filed an Amended Consolidated Complaint, alleging claims for violations of California Business and Professions Code Section 17200, Breach of Implied Warranty under California Civil Code Section 1792, Breach of the Implied Warranty of Merchantability under the laws of 27 other states, Breach of Warranty under the Magnuson-Moss Warranty Act, Unjust Enrichment, violations of the New Jersey Consumer Fraud Act, Strict Liability and Negligence, and violation of California's Consumer Legal Remedies Act.

On August 19, 2009, we filed a motion to dismiss the Amended Consolidated Complaint, and the Court heard arguments on that motion on October 19, 2009. On November 19, 2009, the Court issued an order dismissing with prejudice plaintiffs causes of action for Breach of the Implied Warranty under the laws of 27 other states and unjust enrichment, dismissing with leave to amend plaintiffs' causes of action for Breach of Implied Warranty under California Civil Code Section 1792 and Breach of Warranty under the Magnuson-Moss Warranty Act, and denying NVIDIA's motion to dismiss as to the other causes of action. The Court gave plaintiffs until December 14, 2009 to file

an amended complaint. On December 14, 2009, plaintiffs filed a Second Amended Consolidated Complaint, asserting claims for violations of California Business and Professions Code Section 17200, Breach of Implied Warranty under California Civil Code Section 1792, Breach of Warranty under the Magnuson-Moss Warranty Act, violations of the New Jersey Consumer Fraud Act, Strict Liability and Negligence, and violation of California's Consumer Legal Remedies Act. The Second Amended Complaint seeks unspecified damages. On January 19, 2010, we filed a motion to dismiss the Breach of Implied Warranty under California Civil Code Section 1792, Breach of Warranty under the Magnuson-Moss Warranty Act, and California's Consumer Legal Remedies Act claims in the Second Amended Consolidated Complaint. In addition, on April 1, 2010, Plaintiffs filed a motion to certify a class consisting of all people who purchased computers containing certain of our MCP and GPU products. On May 3, 2010, we filed an opposition to Plaintiffs' motion for class certification. A hearing on both motions was held on June 14, 2010. On July 16, 2010, the parties filed a stipulation with the District Court advising that, following mediation they had reached a settlement in principle in The NVIDIA GPU Litigation. The settlement in principle is subject to certain approvals, including final approval by the court. As a result of the settlement in principle, the other estimated settlement, and offsetting insurance reimbursements, NVIDIA recorded a net charge of \$12.7 million to sales, general and administrative expense during the second quarter of fiscal year 2011. In addition, a portion of the \$181.2 million of additional charges we recorded against cost of revenue related to the weak die/package set during the second quarter of fiscal year 2011, relates to estimated additional repair and replacement costs related to the implementation of these settlements. On July 19, 2010, the District Court entered an order setting a Preliminary Approval hearing for August 30, 2010, and a Final Approval hearing for November 22, 2010, and removing the pending motions from its calendar. On August 12, 2010, the parties executed a Stipulation and Agreement of Settlement and Release. On September 15, 2010, the Court issued an order granting preliminary approval of the settlement and providing for notice to the potential class members. The Court has rescheduled the Final Approval hearing for December 20, 2010.

NVIDIA CORPORATION AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)  
(Unaudited)

In September 2008, three putative securities class actions, or the Actions, were filed in the United States District Court for the Northern District of California arising out of our announcements on July 2, 2008, that we would take a charge against cost of revenue to cover anticipated costs and expenses arising from a weak die/package material set in certain versions of our previous generation MCP and GPU products and that we were revising financial guidance for our second quarter of fiscal year 2009. The Actions purport to be brought on behalf of purchasers of NVIDIA stock and assert claims for violations of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934. On October 30, 2008, the Actions were consolidated under the caption In re NVIDIA Corporation Securities Litigation, Civil Action No. 08-CV-04260-JW (HRL). Lead Plaintiffs and Lead Plaintiffs' Counsel were appointed on December 23, 2008. On February 6, 2009, co-Lead Plaintiff filed a Writ of Mandamus with the Ninth Circuit Court of Appeals challenging the designation of co-Lead Plaintiffs' Counsel. On February 19, 2009, co-Lead Plaintiff filed with the District Court, a motion to stay the District Court proceedings pending resolution of the Writ of Mandamus by the Ninth Circuit. On February 24, 2009, Judge Ware granted the stay. On November 5, 2009, the Court of Appeals issued an opinion reversing the District Court's appointment of one of the lead plaintiffs' counsel, and remanding the matter for further proceedings. On December 8, 2009, the District Court appointed Milberg LLP and Kahn Swick & Foti, LLC as co-lead counsel. On January 22, 2010, Plaintiffs filed a Consolidated Amended Class Action Complaint for Violations of the Federal Securities Laws, asserting claims for violations of Section 10(b) of the Securities Exchange Act, Rule 10b-5, and Section 20(a) of the Securities Exchange Act. The consolidated complaint sought unspecified compensatory damages. We filed a motion to dismiss the consolidated complaint in March 2010 and a hearing was held on June 24, 2010 before Judge Seeborg. On October 19, 2010, Judge Seeborg granted our motion to dismiss with leave to amend. On December 2, 2010, co-Lead Plaintiffs filed a second consolidated amended complaint.

#### Intel Corporation

On February 17, 2009, Intel Corporation filed suit against NVIDIA Corporation, seeking declaratory and injunctive relief relating to a license agreement that the parties signed in 2004. The lawsuit was filed in Delaware Chancery Court. Intel seeks an order from the Court declaring that the license does not extend to certain NVIDIA chipset products and enjoining NVIDIA from stating that it has license rights for these products. The lawsuit seeks no damages from NVIDIA. If Intel successfully obtains such a court order, we could be unable to sell our MCP products for use with certain Intel processors.

On March 23, 2009, we filed our answer to Intel's complaint and also asserted counterclaims for declaratory relief, injunctive relief, breach of contract, and breach of the implied covenant of good faith and fair dealing. Our counterclaims seek an order declaring that NVIDIA has the right to sell certain chipset products with Intel's processors under the 2004 license agreement, and enjoining Intel from interfering with NVIDIA's license rights. In addition, the counterclaims seek a finding that Intel has materially breached its obligations under the 2004 license agreement, and requests various remedies for that breach, including termination of Intel's cross licensing rights and damages. On April 16, 2009, Intel filed its answer to our counterclaims.

Trial was scheduled for December 6, 2010, but the parties have mutually agreed to postpone the trial until a future date to be determined after the New Year.

NVIDIA CORPORATION AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)  
(Unaudited)

Note 13 - Stockholders' Equity

Stock Repurchase Program

Our Board of Directors has authorized us, subject to certain specifications, to repurchase shares of our common stock up to an aggregate maximum amount of \$2.7 billion through May 2013. The repurchases will be made from time to time in the open market, in privately negotiated transactions, or in structured stock repurchase programs, and may be made in one or more larger repurchases, in compliance with Rule 10b-18 of the Securities Exchange Act, subject to market conditions, applicable legal requirements, and other factors. The program does not obligate NVIDIA to acquire any particular amount of common stock and the program may be suspended at any time at our discretion. As part of our share repurchase program, we have entered into, and we may continue to enter into, structured share repurchase transactions with financial institutions. These agreements generally require that we make an up-front payment in exchange for the right to receive a fixed number of shares of our common stock upon execution of the agreement, and a potential incremental number of shares of our common stock, within a pre-determined range, at the end of the term of the agreement.

We did not enter into any structured share repurchase transactions or otherwise purchase any shares of our common stock during the three and nine months ended October 31, 2010. Through October 31, 2010, we have repurchased an aggregate of 90.9 million shares under our stock repurchase program for a total cost of \$1.46 billion. As of October 31, 2010, we are authorized, subject to certain specifications, to repurchase shares of our common stock up to \$1.24 billion through May 2013.

NVIDIA CORPORATION AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)  
(Unaudited)

### Convertible Preferred Stock

As of October 31, 2010 and January 31, 2010, there were no shares of preferred stock outstanding.

### Common Stock

At the Annual Meeting of Stockholders held on June 19, 2008, our stockholders approved an increase in our authorized number of shares of common stock to 2,000,000,000. The par value of our common stock remained unchanged at \$0.001 per share.

Please refer to Note 2 of these Notes to the Condensed Consolidated Financial Statements for further discussion regarding the cash tender offer for certain employee stock options completed in March 2009.

### Note 14 – Comprehensive Income (Loss)

Comprehensive income (loss) consists of net income (loss) and other comprehensive income (loss). Other comprehensive income (loss) components include unrealized gains or losses on available-for-sale securities, net of tax. The components of comprehensive income (loss), net of tax, were as follows:

	Three Months Ended		Nine Months Ended	
	October 31, 2010	October 25, 2009	October 31, 2010	October 25, 2009
	(In thousands)			
Net Income (loss)	\$ 84,862	\$ 107,577	\$ 81,495	\$ (199,063)
Net change in unrealized gains (losses) on available-for-sale securities, net of tax	1,653	1,295	1,408	6,799
Reclassification adjustments for net realized losses on available-for-sale securities included in net loss, net of tax	(220)	(320)	(911)	(1,019)
Total comprehensive income (loss)	\$ 86,295	\$ 108,552	\$ 81,992	\$ (193,283)

### Note 15 - Segment Information

Our Chief Executive Officer, who is considered to be our chief operating decision maker, or CODM, reviews financial information presented on an operating segment basis for purposes of making operating decisions and assessing financial performance.

During the first quarter of fiscal year 2011, we began reporting internally the results of our former MCP segment along with the results of our GPU segment to reflect the way we manage the GPU business. Comparative periods presented reflect this change. Our GPU business is comprised primarily of our GeForce and ION products that support desktop, notebook and netbook personal computers, or PCs. The GPU business also includes memory products. Our professional solutions business, or PSB, is comprised of our Quadro professional workstation products

and other professional graphics products, including our NVIDIA Tesla high-performance computing products. Our consumer products business, or CPB, is comprised of our Tegra mobile brand and products that support tablets and smartbooks, smartphones, personal media players, or PMPs, internet television, automotive navigation, and other such devices. CPB also includes license, royalty, other revenue and associated costs related to video game consoles and other digital consumer electronics devices.

The “All Other” category includes non-recurring charges that we do not allocate to our other operating segments as these expenses are not included in the segment operating performance measures evaluated by our CODM. There were no non-recurring charges for the three months and nine months ended October 31, 2010. Non-recurring charges related to our cash tender offer to purchase certain employee stock options were \$140.2 million for the nine months ended October 25, 2009. Please refer to Note 2 of the Notes to the Condensed Consolidated Financial Statements for further discussion regarding the cash tender offer.



NVIDIA CORPORATION AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)  
(Unaudited)

Our CODM does not review any information regarding total assets on an operating segment basis. Operating segments do not record intersegment revenue, and, accordingly, there is none to be reported. The accounting policies for segment reporting are the same as for NVIDIA as a whole.

	GPU	PSB	CPB (In thousands)	All Other	Consolidated
Three Months Ended October 31, 2010:					
Revenue	\$ 581,863	\$ 210,115	\$ 51,934	\$ -	\$ 843,912
Depreciation and amortization expense	\$ 31,488	\$ 7,782	\$ 7,516	\$ -	\$ 46,786
Operating income (loss)	\$ 48,521	\$ 87,027	\$ (31,765 )	\$ -	\$ 103,783
Three Months Ended October 25, 2009:					
Revenue	\$ 717,658	\$ 129,638	\$ 55,910	\$ -	\$ 903,206
Depreciation and amortization expense	\$ 33,972	\$ 6,648	\$ 8,150	\$ -	\$ 48,770
Operating income (loss)	\$ 80,833	\$ 38,600	\$ (11,588 )	\$ -	\$ 107,845
Nine Months Ended October 31, 2010:					
Revenue	\$ 1,913,130	\$ 614,935	\$ 128,868	\$ -	\$ 2,656,933
Depreciation and amortization expense	\$ 97,180	\$ 20,379	\$ 23,037	\$ -	\$ 140,596
Operating income (loss)	\$ (57,846 )	\$ 246,117	\$ (112,302 )	\$ -	\$ 75,969
Nine Months Ended October 25, 2009:					
Revenue	\$ 1,880,659	\$ 352,413	\$ 110,885	\$ -	\$ 2,343,957
Depreciation and amortization expense	\$ 105,692	\$ 21,037	\$ 22,021	\$ -	\$ 148,750
Operating income (loss)	\$ (115,204 )	\$ 92,527	\$ (70,309 )	\$ (140,241 )	\$ (233,227)

Revenue by geographic region is allocated to individual countries based on the location to which the products are initially billed even if our customers' revenue is attributable to end customers that are located in a different location. The following tables summarize information pertaining to our revenue from customers based on invoicing address in different geographic regions:

	Three Months Ended		Nine Months Ended	
	October 31, 2010	October 25, 2009	October 31, 2010	October 25, 2009
	(In thousands)			
Revenue:				
China	\$ 282,300	\$ 359,207	\$ 930,981	\$ 942,835

Edgar Filing: NVIDIA CORP - Form 10-Q

Taiwan	220,322	240,597	687,474	610,218
Other Asia Pacific	112,292	116,408	395,091	282,043
United States	79,474	64,822	227,633	176,594
Other Americas	78,737	71,385	216,419	192,457
Europe	70,787	50,787	199,335	139,810
Total revenue	\$ 843,912	\$ 903,206	\$ 2,656,933	\$ 2,343,957

Revenue from significant customers, those representing 10% or more of total revenue, aggregated approximately 12% of our total revenue from one customer and 13% of our total revenue from one customer for the three and nine months ended October 31, 2010, respectively. Revenue from significant customers aggregated approximately 14% and 12% of our total revenue from one customer for the three and nine months ended October 25, 2009, respectively.

Accounts receivable from significant customers, those representing 10% or more of total accounts receivable, aggregated approximately 34% of our accounts receivable balance from three customers at October 31, 2010 and approximately 20% of our accounts receivable balance from two customers at January 31, 2010.

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### Forward-Looking Statements

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, which are subject to the "safe harbor" created by those sections. Forward-looking statements are based on our management's beliefs and assumptions and on information currently available to our management. In some cases, you can identify forward-looking statements by terms such as "may," "will," "should," "could," "goal," "would," "expect," "plan," "anticipate," "estimate," "project," "predict," "potential" and similar expressions intended to identify forward-looking statements. These statements involve known and unknown risks, uncertainties and other factors, which may cause our actual results, performance, time frames or achievements to be materially different from any future results, performance, time frames or achievements expressed or implied by the forward-looking statements. We discuss many of these risks, uncertainties and other factors in this Quarterly Report on Form 10-Q in greater detail under the heading "Risk Factors." Given these risks, uncertainties and other factors, you should not place undue reliance on these forward-looking statements. Also, these forward-looking statements represent our estimates and assumptions only as of the date of this filing. You should read this Quarterly Report on Form 10-Q completely and with the understanding that our actual future results may be materially different from what we expect. We hereby qualify our forward-looking statements by these cautionary statements. Except as required by law, we assume no obligation to update these forward-looking statements publicly, or to update the reasons actual results could differ materially from those anticipated in these forward-looking statements, even if new information becomes available in the future.

All references to "NVIDIA," "we," "us," "our" or the "Company" mean NVIDIA Corporation and its subsidiaries, except where it is made clear that the term means only the parent company.

NVIDIA, the NVIDIA logo, CUDA, GeForce, ION, NVIDIA 3D Vision, PhysX, Quadro, Tegra, and Tesla are trademarks and/or registered trademarks of NVIDIA Corporation in the United States and other countries. Other company and product names may be trademarks of the respective companies with which they are associated.

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with "Item 6. Selected Financial Data" of our Annual Report on Form 10-K for the fiscal year ended January 31, 2010 and Part II, "Item 1A. Risk Factors", of our Condensed Consolidated Financial Statements and related Notes thereto, as well as other cautionary statements and risks described elsewhere in this Quarterly Report on Form 10-Q, before deciding to purchase, hold or sell shares of our common stock.

### Overview

#### Our Company

NVIDIA Corporation invented the graphics processing unit, or GPU, in 1999. Since then, it has strived to set new standards in visual computing with interactive graphics available on devices ranging from tablets and portable media players to notebooks and workstations. Expertise in programmable GPUs has led to breakthroughs in parallel processing which make supercomputing inexpensive and widely accessible. We serve the entertainment and consumer market with our GeForce and ION graphics products, the professional design and visualization market with our Quadro graphics products, the high-performance computing market with our Tesla computing solutions products, and the mobile computing market with our Tegra system-on-a-chip products. We have three major operating segments: the GPU business, the Professional Solutions Business, or PSB, and the Consumer Products Business, or

CPB.

Our GPU business is comprised primarily of our GeForce and ION products that support desktop, memory products, notebook and netbook personal computers, or PCs, including chipset products that were previously described as media and communications processor, or MCP. Our PSB is comprised of our NVIDIA Quadro professional workstation products and other professional graphics products, including our NVIDIA Tesla high-performance computing products. Our CPB is comprised of our Tegra mobile products that support tablets and smartbooks, smartphones, personal media players, or PMPs, internet television, automotive navigation, and other similar devices. CPB also includes license, royalty, other revenue and associated costs related to video game consoles and other digital consumer electronics devices. Original equipment manufacturers, original design manufacturers, add-in-card manufacturers, system builders and consumer electronics companies worldwide utilize our processors as a core component of their entertainment, business and professional solutions.

We were incorporated in California in April 1993 and reincorporated in Delaware in April 1998. Our headquarter facilities are in Santa Clara, California. Our Internet address is [www.nvidia.com](http://www.nvidia.com). The contents of our website are not a part of this Form 10-Q.

## Recent Developments, Future Objectives and Challenges

### GPU Business

During the third quarter of fiscal year 2011, we launched 12 new GPU products, including the GeForce GTS 450 and GeForce GT 430. The GTS 450 is designed to deliver the most advanced GPU and gaming experience for budget conscious gamers. The GT 430 is designed for photo and video editing, Blu-ray 3D, and the next-generation of GPU-accelerated Web browsers and Web content for mainstream PC users. We also launched a complete range of notebook GPUs in the GeForce 400M family with Optimus technology, a proprietary NVIDIA product feature designed for mobile applications to optimize power usage and extend battery life. Lenovo and Dell have already shipped their new product lines based on GeForce 400M with Optimus.

During the second quarter of fiscal year 2011, we launched our GeForce GTX 460. The GTX 460 uses our second-generation Fermi architecture and delivers a DirectX 11 gaming experience at a balance of price, performance and power.

During the first quarter of fiscal year 2011, we announced and shipped our GeForce GTX 480 and 470 GPUs, the first GPUs based on our Fermi architecture. The GeForce GTX 480 and GTX 470 GPUs are designed to excel at tessellation, the defining feature of DirectX 11. The GeForce GTX 480/470 GPUs also provide a higher computational capability, which is designed to allow game developers to increase the level of physics realism via our PhysX API. We also began shipments of the GeForce 320M chipset to Apple for incorporation into their latest 13-inch MacBook notebooks. The 320M delivers up to an 80% performance increase over the previous GeForce 9400M GPU. Our stereo 3D technology continued to gain acceptance in the quarter as we sold a record number of our NVIDIA 3D Vision kits.

### Professional Solutions Business

During the third quarter of fiscal year 2011, our Quadro business further benefitted from the strength of our Fermi architecture with the launch of the Quadro 2000 midrange GPU and the Quadro 600 entry-level GPU. These professional graphics solutions put the computational and visualization benefits of our Fermi architecture within reach of all engineers, designers and animators, with the Quadro 2000 delivering significantly higher performance across leading CAD applications, such as SolidWorks and Autodesk 3ds Max, and the Quadro 600 positioned at a competitive price/performance point. Our Tesla supercomputing business continues to make progress with key project wins not only in our core market segments, but also with traction in a number of new focus areas. A notable achievement this quarter was the unveiling of the Tianhe-1A supercomputer at HPC 2010 China. The system uses more than 7,000 Tesla M2050 GPUs, is three-times more energy efficient than an equivalent CPU-only system and takes up half as much floor space.

During the second quarter of fiscal year 2011, demand for our workstation products continued to recover, fueled by demand from enterprise customers and new growth markets like video editing. During SIGRRAPH 2010, we introduced new Quadro GPU products based on our Fermi architecture and 3D Vision Pro, a new 3D stereoscopic solution that empowers engineers, designers, architects and computational chemists who work with complex 3D designs to experience a rich, reliable 3D viewing for large scale visualization environments.

The new Quadro GPUs deliver performance that is up to five times faster for 3D applications and up to eight times faster for computational simulation than our previous Quadro generation products. During the second quarter of fiscal year 2011, our Tesla high performance computing products achieved another record revenue quarter, and continues to make progress in our targeted vertical markets including supercomputing, energy and finance.

During the first quarter of fiscal year 2011, we announced that a range of NVIDIA Quadro professional graphics solutions are certified by Adobe for Adobe Creative Suite 5 software, which provides real-time video editing and effects processing of Adobe Premiere Pro CS5. Tesla achieved record revenue during the first quarter of fiscal year 2011 following the launch of Tesla products based on our new Fermi architecture.

#### Consumer Products Business

During the third quarter of fiscal year 2011, we continued to see promising signs in our Tegra business, helped by Android's adoption. Gartner reported in November 2010 that Android was now the world's second-most popular smart phone operating system, ahead of the iPhone and Blackberry operating systems. We expect Tegra shipment volumes to begin ramping up late in the fourth quarter of fiscal year 2011 and the first quarter of fiscal year 2012, fueled by the production release of Android-based smartphone and tablet products. We have multiple next-generation Tegra design wins in both tablets and smartphones. We have also announced that Volkswagen and Audi will use our next-generation Tegra starting in 2012.

## Product Defect

During the second quarter of fiscal year 2011, we recorded an additional charge to cover the estimated remaining customer warranty, repair, return, replacement and other costs arising from a weak die/package material set in certain versions of our previous generation MCP and GPU products used in notebook configurations. The net charge amounted to \$193.9 million, of which \$181.2 million was charged against cost of revenue. The extra remediation costs are primarily due to additional platforms from late failing systems that we had not previously considered to be at risk. Included in the charge are the estimated costs of implementing a settlement reached during the second quarter of fiscal year 2011 with the plaintiffs of a putative consumer class action lawsuit related to this same matter and another related estimated consumer class action settlement. As a result of this settlement, the other estimated settlement, and offsetting insurance reimbursements, we recorded a net charge of \$12.7 million to sales, general and administrative expense during the second quarter of fiscal year 2011. Together with the \$282.0 million net charge we had previously recorded for related estimated costs, this brings the total cumulative net charge to \$475.9 million, of which \$466.4 million has been charged against cost of revenue.

We intend to fully support our customers in their repair and replacement of these impacted products that fail, and their other efforts to mitigate the consequences of these failures. We continue to not see any abnormal failure rates in any systems using NVIDIA products other than certain notebook configurations. However, we are continuing to test and otherwise investigate other products. There can be no assurance that we will not discover defects in other products.

In September, October and November 2008, several putative securities class action lawsuits were filed against us, asserting various claims related to the impacted MCP and GPU products. Please refer to Note 12 of these Notes to the Condensed Consolidated Financial Statements for further information regarding this litigation and the settlement.

## Rambus License

In November 2008, Rambus filed a complaint alleging patent infringement against NVIDIA and other respondents with the U.S. International Trade Commission, or ITC. The complaint seeks an exclusion order barring the importation of products that allegedly infringe the Rambus patents.

The ITC has instituted an investigation and a hearing was held in October 2009. The Administrative Law Judge issued an Initial Determination in January 2010, which found the asserted claims of two patents in one patent family infringed but invalid, and the asserted claims of three patents in a separate patent family, valid, infringed and enforceable. The ITC issued a Final Decision on July 26, 2010. In its Final Decision, the ITC found that NVIDIA infringed three related patents and issued a limited exclusion order prohibiting import of certain NVIDIA products. NVIDIA is appealing the ruling.

Rambus has also been subject to an investigation in the European Union. NVIDIA was not a party to that investigation. However, as a result of Rambus' commitments to resolve that investigation, for a period of five years from the date of the resolution, Rambus must now provide a license to memory controller manufacturers, sellers, and/or companies that integrate memory controllers into other products. The license terms are set forth in a license made available on Rambus' website, or the Required Rambus License.

On August 12, 2010, we entered into the Required Rambus License. Pursuant to the agreement, Rambus charges a royalty of (i) one percent of the net sales price per unit for certain memory controllers and (ii) two percent of the net sales price per unit for certain other memory controllers, provided that the maximum average net sales price per unit for these royalty bearing products shall be deemed not to exceed a maximum of \$20. As a result, we believe that the impact on our ongoing overall gross margin, depending on the product mix, will be approximately one gross margin

point. The agreement has a term until December 9, 2014. However, NVIDIA may terminate the agreement on or after August 12, 2011 with 30 days prior written notice to Rambus.

#### Stock Repurchase Program

Our Board of Directors, or our Board, has authorized us, subject to certain specifications, to repurchase shares of our common stock up to an aggregate maximum amount of \$2.7 billion through May 2013. During the three and nine months ended October 31, 2010, we did not enter into any structured share repurchase transactions or otherwise purchase any shares of our common stock. Through October 31, 2010, we have repurchased an aggregate of 90.9 million shares under our stock repurchase program for a total cost of \$1.46 billion. As of October 31, 2010, we are authorized, subject to certain specifications, to repurchase shares of our common stock up to \$1.24 billion through May 2013.

#### Financial Information by Business Segment and Geographic Data

Our Chief Executive Officer, who is considered to be our chief operating decision maker, or CODM, reviews financial information presented on a operating segment basis for purposes of making operating decisions and assessing financial performance.



During the first quarter of fiscal year 2011, we began reporting internally the results of our former MCP segment along with the results of our GPU segment to reflect the way we manage the GPU business. Comparative periods presented reflect this change. We report financial information for three operating segments to our CODM: the GPU business, which is comprised primarily of our GeForce and ION products that support desktop, notebook and netbook PCs and also includes memory products; the PSB, which is comprised of our NVIDIA Quadro professional workstation products and other professional graphics products, including our NVIDIA Tesla high-performance computing products; and our CPB, which is comprised of our Tegra mobile products that support tablets and smartbooks, smartphones, PMPs, internet television, automotive navigation, and other similar devices. CPB also includes license, royalty, other revenue and associated costs related to video game consoles and other digital consumer electronics devices.

The “All Other” category includes non-recurring charges that we do not allocate to our other operating segments as these expenses are not included in the segment operating performance measures evaluated by our CODM. There were no non-recurring charges for the first nine months of fiscal year 2011. Non-recurring charges related to our cash tender offer to purchase certain employee stock options were \$140.2 million for the first quarter of fiscal year 2010. Please refer to Note 2 of the Notes to the Condensed Consolidated Financial Statements for further discussion regarding the cash tender offer and Note 15 of the Notes to the Condensed Consolidated Financial Statements for further disclosure regarding segment information.

## Results of Operations

The following table sets forth, for the periods indicated, certain items in our condensed consolidated statements of operations expressed as a percentage of revenue.

	Three Months Ended		Nine Months Ended	
	October 31, 2010	October 25, 2009	October 31, 2010	October 25, 2009
Revenue	100.0 %	100.0 %	100.0 %	100.0 %
Cost of revenue	53.5	56.6	63.0	68.5
Gross profit	46.5	43.4	37.0	31.5
Operating expenses				
Research and development	24.3	21.9	23.8	29.5
Sales, general and administrative	9.9	9.5	10.3	11.9
Total operating expenses	34.2	31.4	34.1	41.4
Income (loss) from operations	12.3	12.0	2.9	(9.9 )
Interest and other income, net	0.0	0.3	0.3	0.5
Income (loss) before income tax expense (benefit)	12.3	12.3	3.2	(9.4 )
Income tax expense (benefit)	2.2	0.3	0.1	(1.0 )
Net Income (loss)	10.1	12.0 %	3.1	(8.4 )%

Three and nine months ended October 31, 2010 and October 25, 2009

## Revenue

Revenue was \$843.9 million for our third quarter of fiscal year 2011, compared to \$903.2 million for our third quarter of fiscal year 2010, which represents a decrease of approximately 6.6%. Revenue was \$2.66 billion for the first nine months of fiscal year 2011 and \$2.34 billion for the first nine months of fiscal year 2010, which represented an increase of 13.4%. We expect revenue to increase slightly during the fourth quarter of fiscal year 2011 as compared to

the third quarter of fiscal year 2011. A discussion of our revenue results for each of our operating segments is as follows:

GPU Business. GPU Business revenue decreased by approximately 18.9% to \$581.9 million in the third quarter of fiscal year 2011, compared to \$717.7 million for the third quarter of fiscal year 2010. The decline in sales of mainstream GPU and MCP products was primarily due to a drop in unit shipments driven by weakness in our end customer markets as well as market share losses according to the latest 2010 PC Graphics Report from Mercury Research.

GPU Business revenue increased slightly by 1.7% to \$1.91 billion for the first nine months of fiscal year 2011 compared to \$1.88 billion for the first nine months of fiscal year 2010. The increase was primarily the result of increased sales of our notebook GPU products offset by decreased sales of our desktop GPU and MCP products. The growth in the sales of notebook GPU products was driven by a continuing shift in the market demand towards notebook PCs from desktop PCs. Offsetting this growth was a decrease in sales of our MCP products due to a drop in unit shipments driven by weakness in our end customer markets.

PSB. PSB revenue increased by approximately 62.1% to \$210.1 million in the third quarter of fiscal year 2011, compared to \$129.6 million for the third quarter of fiscal year 2010. PSB revenue increased by 74.5% to \$614.9 million for the first nine months of fiscal year 2011 as compared to \$352.4 million for the first nine months of fiscal year 2010. These increases were driven by growth in both our Quadro and Tesla brands. Unit shipments of our Quadro workstation products increased, fueled by demand from enterprise customers as the market recovered from the previous recessionary conditions. Tesla achieved record revenue during the second quarter and first half of fiscal year 2011, driven by the launch of products containing our new Fermi architecture.

CPB. CPB revenue decreased by 7.1% to \$51.9 million in the third quarter of fiscal year 2011, compared to \$55.9 million for the third quarter of fiscal year 2010. This decrease in CPB revenue was primarily due to a sales decline in our products for the entertainment market. Offsetting this decline was an increase in Mobile revenue driven by increased unit shipments of Tegra. CPB revenue increased by approximately 16.2% to \$128.9 million for the first nine months of fiscal year 2011 as compared to \$110.9 million for the first nine months of fiscal year 2010. This increase in CPB revenue was primarily driven by increased unit shipments of our Tegra products.

#### Concentration of Revenue

Revenue from sales to customers outside of the United States and other Americas accounted for 81% and 85% of total revenue for the third quarter of fiscal years 2011 and 2010, respectively, and 83% and 84% for the first nine months of fiscal years 2011 and 2010 respectively. Revenue by geographic region is allocated to individual countries based on the location to which the products are initially billed even if the revenue is attributable to end customers in a different location.

Revenue from significant customers, those representing 10% or more of total revenue aggregated approximately 12% of our total revenue from one customer for the third quarter and 13% of our total revenue from one customer for the first nine months of fiscal year 2011. Revenue from significant customers aggregated approximately 14% and 12% of our total revenue from one customer for the third quarter and first nine months of fiscal year 2010, respectively.

#### Gross Profit and Gross Margin

Gross profit consists of total revenue, net of allowances, less cost of revenue. Cost of revenue consists primarily of the cost of semiconductors purchased from subcontractors, including wafer fabrication, assembly, testing and packaging, manufacturing support costs, including labor and overhead associated with such purchases, final test yield fallout, inventory and warranty provisions and shipping costs. Cost of revenue also includes development costs for license, service arrangements and stock-based compensation related to personnel associated with manufacturing.

Gross margin is the percentage of gross profit to revenue. Our gross margin can vary in any period depending on the mix of types of products sold. Our gross margin is significantly impacted by the mix of products we sell. Product mix is often difficult to estimate with accuracy. Therefore, if we experience product transition challenges, if we achieve significant revenue growth in our lower margin product lines, or if we are unable to earn as much revenue as we expect from higher margin product lines, our gross margin may be negatively impacted.

Our overall gross margin was 46.5% and 43.4% for the third quarter of fiscal year 2011 and 2010, respectively and 37.0% and 31.5% for the first nine months of fiscal year 2011 and 2010, respectively. The improvement in gross margin for the third quarter of fiscal year 2011 when compared to the third quarter of fiscal year 2010 was attributable to a more favorable product mix and the continuing positive impact of improved yields of our 40nm products as well as other manufacturing cost reductions. Additionally, during the third quarter of fiscal year 2011, we sold products that had been previously reserved and also recorded new inventory reserves on other components. While the net impact to the quarter was immaterial, each of these offsetting items represented an impact on gross margin of approximately 3%. Impact of sales of items previously reserved was insignificant for the third quarter of fiscal year 2010.

We intend to focus on improving our gross margin by delivering cost effective product architectures, enhancing business processes and delivering profitable growth. We expect gross margin to stay flat during the fourth quarter of fiscal year 2011 as compared to the third quarter of fiscal year 2011.

A discussion of our gross margin results for each of our operating segments is as follows:

**GPU Business.** The gross margin of our GPU Business increased slightly during the third quarter of fiscal year 2011 as compared to the third quarter of fiscal year 2010. The increase was primarily due to positive contribution from products based on our Fermi architecture. Margins also improved as a result of favorable product mix, better yields of our 40nm products as well as other manufacturing cost reductions. Gross margin was flat during the first nine months of fiscal year 2011 as compared to the first nine months of fiscal year 2010. Both fiscal years included the impact of an additional charge related to weak die/package material set used in certain versions of previous generation MCP and GPU products, net of insurance reimbursements. During the second quarter of fiscal year 2011, we recorded a net charge against cost of revenue of \$181.2 million that includes anticipated customer warranty, repair, return, replacement and associated costs arising from a weak die/package material set as well as additional remediation costs and the estimated costs of a pending settlement of a class action lawsuit. During the second quarter of fiscal year 2010 we had recorded a net charge of \$120.0 million to cost of revenue for this same matter. Additionally, during the second quarter of fiscal year 2011, unexpected PC market weakness resulted in excess inventory. As a consequence, we recorded related charges for inventory reserves and the gross margin of our GPU Business was negatively impacted by these charges.

**PSB.** The gross margin of our PSB increased during the third quarter of fiscal year 2011 as compared to the third quarter of fiscal year 2010 as well as during the first nine months of fiscal year 2011 as compared to the first nine months of fiscal year 2010. The increase was primarily due to the positive contribution of new products that we launched during fiscal year 2011 containing our new Fermi architecture. Lower gross margin for the third quarter of fiscal year 2010 and nine months ended fiscal year 2010 was primarily due to decline in ASPs caused by pricing pressure due to the slow recovery of corporate spending following the economic recession.

**CPB.** The gross margin of our CPB increased during the third quarter of fiscal year 2011 as compared to the third quarter fiscal year 2010 as well as during the during the first nine months of fiscal year 2011 as compared to the first nine months of fiscal year 2010. The increase was primarily driven by increased unit shipments of higher margin Tegra products and royalties from game console-related products in the comparative period.

#### Operating Expenses

	Three Months Ended				Nine Months Ended					
	October 31, 2010		October 25, 2009		October 31, 2010		October 25, 2009			
			\$	%	\$	%	\$	%	\$	%
	(in millions)		Change	Change	(in millions)		Change	Change		
Research and development expenses	\$ 204.5	\$ 197.9	\$ 6.6	3.3 %	\$ 633.3	\$ 692.6	\$ (59.3)	8.6 %		
Sales, general and administrative expenses	83.8	86.0	(2.2)	2.6 %	273.5	278.8	(5.3)	1.9 %		
Total operating expenses	\$ 288.3	\$ 283.9	\$ 4.4	1.5 %	\$ 906.8	\$ 971.4	\$ (64.6)	6.7 %		
Research and development as a percentage of net revenue	24.3 %	21.9 %			23.8 %	29.5 %				

Sales, general and administrative as a percentage of net revenue	9.9	%	9.5	%	10.3	%	11.9	%
--	-----	---	-----	---	------	---	------	---

### Research and Development

Research and development expenses were \$204.5 million and \$197.9 million during the third quarter of fiscal year 2011 and 2010, respectively, an increase of \$6.6 million, or 3.3%. Compensation and benefits increased by \$6.7 million and stock based compensation increased by \$1.3 million, primarily related to growth in headcount. Development spending also increased \$1.4 million. These increases were offset by a decrease of \$2.8 million in depreciation and amortization associated with fully depreciated assets.

Research and development expenses were \$633.3 million and \$692.6 million in the first nine months of fiscal years 2011 and 2010, respectively, a decrease of \$59.3 million, or 8.6%. During the first nine months of fiscal year 2010, research and development expenses included stock-based compensation of \$90.5 million related to the purchase of certain outstanding options that were tendered in March 2009. In addition, ongoing stock-based compensation expense decreased in the first nine months of fiscal year 2011 by \$4.1 million resulting from the cancellation of stock options pursuant to the tender offer in March 2009 and depreciation and amortization decreased by \$7.6 million as a result of fully depreciated assets. These decreases were offset by increases in compensation and benefits by \$20.0 million primarily related to growth in headcount and increases in development spending by \$12.7 million.

### Sales, General and Administrative

Sales, general and administrative expenses were \$83.8 million and \$86.0 million during the third quarters of fiscal years 2011 and 2010, respectively, a decrease of \$2.2 million, or 2.6%. This decrease was primarily attributable to \$4.9 million decrease in outside professional fees incurred in the prior year due to certain litigation and other matters and \$3.8 million decrease in other expenses primarily due to renegotiated rents for our main campus and settlement proceeds received in third quarter of fiscal year 2011. This decrease was offset by a \$6.4 million increase in compensation and benefits by due to headcount growth in departments related to sales, general, and administrative functions.

Sales, general and administrative expenses were \$273.5 million and \$278.8 million for the first nine months of fiscal years 2011 and 2010, respectively, a decrease of \$5.3 million, or 1.9%. The decrease was primarily attributable to \$5.4 million decrease in outside professional fees and \$3.0 million decrease in depreciation and amortization due to fully depreciated assets. Additionally, the first nine months of fiscal year 2010, sales, general and administrative expenses included stock-based compensation of \$38.3 million related to the purchase of certain outstanding options that were tendered in March 2009. These decreases were offset by increases in compensation and benefits of \$24.0 million primarily due to headcount growth in departments related to sales, general, and administrative functions, and an increase in marketing expense of \$4.9 million. Additionally, during the second quarter of fiscal year 2011, we recorded a charge for estimated costs of implementing a settlement with the plaintiffs of a putative consumer class action lawsuit and another related estimated consumer class action settlement. As a result of the settlement in principle, another related estimated settlement, and offsetting insurance reimbursements, we recorded a net charge of \$12.7 million to sales, general and administrative expenses.

We expect operating expenses to be approximately \$300 million in the fourth quarter of fiscal year 2011.

### Interest Income

Interest income consists of interest earned on cash, cash equivalents and marketable securities. Interest income was \$4.2 million and \$5.4 million in the third quarter of fiscal years 2011 and 2010, respectively, a decrease of \$1.2 million. Interest income was \$14.6 million and \$17.3 million for the first nine months of fiscal years 2011 and 2010, respectively, a decrease of \$2.7 million. These decreases were primarily due to lower interest rates in the third quarter and first nine months of fiscal year 2011 when compared to the third quarter and first nine months of fiscal year 2010.

### Other Income (Expense), net

Other income and expense primarily consists of realized gains and losses on the sale of marketable securities and foreign currency translation. Other (expense), net of other income was (\$4.4) million in the third quarter of fiscal year 2011 compared to (\$3.1) million of other (expense), net of other income in the third quarter of fiscal year 2010. The increase of \$1.3 million was primarily driven by an increase in foreign currency losses in the third quarter of fiscal year 2011.

### Income Taxes

We recognized income tax expense (benefit) of \$18.7 million and \$3.8 million for the three and nine months ended October 31, 2010, respectively, and \$2.6 million and \$(22.7) million for the three and nine months ended October 25, 2009, respectively. Income tax expense (benefit) as a percentage of income (loss) before taxes, or our effective tax rate, was 18.1% and 4.4% for the three and nine months ended October 31, 2010, respectively, and 2.4% and 10.2% for the three and nine months ended October 25, 2009, respectively.

Our effective tax rate on income before tax for the first nine months of fiscal year 2011 of 4.4% was lower than the United States federal statutory rate of 35% due primarily to income earned in jurisdictions where the tax rate is lower than the United States federal statutory tax rate and favorable discrete events that occurred in the nine months of fiscal year 2011 primarily attributable to the expiration of statutes of limitations in certain non-U.S. jurisdictions for which we had not previously recognized related tax benefits. The U.S. federal research tax credit expired on December 31, 2009. We will recognize the tax benefit of the U.S. federal research tax credit if and when reenacted into law.

The expected tax benefit derived from our loss before tax for the first nine months of fiscal year 2010 at the United States federal statutory tax rate of 35% differs from our actual effective tax rate of 10.2% due primarily to permanent tax differences related to stock-based compensation and losses recognized in tax jurisdictions where no tax benefit has been recognized, partially offset by the U.S. tax benefit of the federal research tax credit. Our actual effective tax rate was also impacted by discrete events in the first nine months of fiscal year 2010, primarily related to our stock option purchase completed in March 2009 and the favorable impact from the expiration of statutes of limitations in certain non-U.S. jurisdictions.

Please refer to Note 5 of the Notes to Condensed Consolidated Financial Statements for further information regarding the components of our income tax expense.



## Liquidity and Capital Resources

	As of October 31, 2010	As of January 31, 2010
	(In millions)	
Cash and cash equivalents	\$451.2	\$447.2
Marketable securities	1,536.0	1,281.0
Cash, cash equivalents, and marketable securities	\$1,987.2	\$1,728.2
	Nine Months Ended	
	October 31, 2010	October 25, 2009
	(In millions)	
Net cash provided by operating activities	\$241.1	\$418.6
Net cash used in investing activities	\$(340.4)	\$(235.6)
Net cash provided by financing activities	\$103.3	\$13.8

As of October 31, 2010, we had \$1.99 billion in cash, cash equivalents and marketable securities, an increase of \$259.0 million from \$1.73 billion at the end of fiscal year 2010. Our portfolio of cash equivalents and marketable securities is managed by several financial institutions. Our investment policy requires the purchase of top-tier investment grade securities, the diversification of asset type and includes certain limits on our portfolio duration.

## Operating activities

Operating activities provided cash of \$241.1 million and \$418.6 million during the first nine months of fiscal years 2011 and 2010, respectively. The decrease in cash provided by operating activities in the first nine months of fiscal year 2011 was primarily due to increases in working capital as a result of an increase in inventories for the GPU business and decreases in accounts payable due to the timing of payment of vendor invoices. A decrease in non-cash items for the first nine months of fiscal year 2011 when compared to the first nine months of fiscal year 2010 comprised primarily of depreciation and stock based compensation expense, contributed to the decrease in operating cash flows as well.

## Investing activities

Investing activities consisted primarily of purchases and sales of marketable securities and purchases of property and equipment, which include leasehold improvements for our facilities and intangible assets. Investing activities used cash of \$340.4 million and \$235.6 million during the first nine months of fiscal years 2011 and 2010, respectively.

We expect to spend approximately \$50 million for capital expenditures during the remainder of fiscal year 2011, primarily for software licenses. In addition, we may continue to use cash in connection with the acquisition of new businesses or assets.

## Financing activities

Financing activities provided cash of \$103.3 million and \$13.8 million during the first nine months of fiscal years 2011 and 2010, respectively. Net cash provided by financing activities in the first nine months of fiscal year 2011 was primarily due to an increase of proceeds from issuance of common stock under our employee stock plans during the first nine months of fiscal year 2011. During the first nine months of fiscal year 2010, \$78.1 million was paid to

purchase stock options tendered in March 2009, offset by cash proceeds of \$47.1 million from common stock issued under our employee stock plans.

### Liquidity

Our primary source of liquidity is cash generated by our operations. Our investment portfolio consisted of cash and cash equivalents, commercial paper, mortgage-backed securities issued by government-sponsored enterprises, equity securities, money market funds and debt securities of corporations, municipalities and the United States government and its agencies. These investments are denominated in United States dollars. As of October 31, 2010, we did not have any investments in auction-rate preferred securities.

All of our cash equivalents and marketable securities are treated as “available-for-sale”. Investments in both fixed rate and floating rate interest earning instruments carry a degree of interest rate risk. Fixed rate debt securities may have their market value adversely impacted due to a rise in interest rates, while floating rate securities may produce less income than expected if interest rates fall. Due in part to these factors, our future investment income may fall short of expectations due to changes in interest rates or if the decline in fair value of our publicly traded debt or equity investments is judged to be other-than-temporary. We may suffer losses in principal if we are forced to sell securities that decline in market value due to changes in interest rates. However, because any debt securities we hold are classified as “available-for-sale,” no gains or losses are realized in our statement of operations due to changes in interest rates unless such securities are sold prior to maturity or unless declines in market values are determined to be other-than-temporary. These securities are reported at fair value with the related unrealized gains and losses included in accumulated other comprehensive income, a component of stockholders’ equity, net of tax.

As of October 31, 2010 and January 31, 2010, we had \$1.99 billion and \$1.73 billion, respectively, in cash, cash equivalents and marketable securities. Our investment policy requires the purchase of top-tier investment grade securities and the diversification of asset types and includes certain limits on our portfolio duration, as specified in our investment policy guidelines. These guidelines also limit the amount of credit exposure to any one issue, issuer or type of instrument. As of October 31, 2010, we were in compliance with our investment policy. As of October 31, 2010, our investments in government agencies and government sponsored enterprises represented approximately 60% of our total investment portfolio, while the financial sector accounted for approximately 32% of our total investment portfolio. All of our investments are with A/A2 or better rated securities.

We performed an impairment review of our investment portfolio as of October 31, 2010. Based on our quarterly impairment review, we concluded that our investments were appropriately valued and did not record any impairment during three months ended October 31, 2010. However, during fiscal year 2009, we recorded an other than temporary impairment charge of \$5.6 million related to our investment in the money market funds held by the Reserve International Liquidity Fund, Ltd., or International Reserve Fund. Please refer to Note 7 of the Notes to the Condensed Consolidated Financial Statements for further details.

Net realized gains, for the three and nine months ended October 31, 2010 were \$0.3 million and \$1.3 million, respectively. Net realized gains, excluding any impairment charges, for the three and nine months ended October 25, 2009 were \$0.5 million and \$1.5 million, respectively. As of October 31, 2010, we had a net unrealized gain of \$13.0 million, which was comprised of gross unrealized gains of \$13.0 million, offset by gross unrealized losses that were insignificant. As of January 31, 2010, we had a net unrealized gain of \$12.6 million, which was comprised of gross unrealized gains of \$12.7 million, offset by \$0.1 million of gross unrealized losses.

As of October 31, 2010, we held a money market investment in the International Reserve Fund, which was valued at \$13.0 million, after a \$5.6 million other than temporary impairment charge that we recorded during fiscal year 2009. We reclassified this amount out of cash and cash equivalents in our Condensed Consolidated Balance Sheet due to the halting of redemption requests in September 2008 by the International Reserve Fund. The \$13.0 million value of our holdings in the International Reserve Fund as of October 31, 2010 reflects an initial investment of \$130.0 million, reduced by \$111.4 million that we received from the International Reserve Fund during the fiscal year 2010 and the \$5.6 million other than temporary impairment charge we recorded against the value of this investment during fiscal year 2009. The \$111.4 million we received was our portion of a payout of approximately 85.6% of the total assets of the International Reserve Fund. All of the underlying securities held by the International Reserve Fund had matured by the end of fiscal year 2010. We expect to ultimately receive the proceeds from our remaining investment in the International Reserve Fund, excluding some or all of the \$5.6 million impairment charges. However, redemptions from the International Reserve Fund are currently subject to pending litigation, which could cause further delay in receipt of our funds.

Our accounts receivable are highly concentrated and make us vulnerable to adverse changes in our customers' businesses, and to downturns in the industry and the worldwide economy. Three customers accounted for approximately 34% of our accounts receivable balance at October 31, 2010. While we strive to limit our exposure to uncollectible accounts receivable using a combination of credit insurance and letters of credit, difficulties in collecting accounts receivable could materially and adversely affect our financial condition and results of operations. These difficulties are heightened during periods when economic conditions worsen. We continue to work directly with more foreign customers and it may be difficult to collect accounts receivable from them. We maintain an allowance for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. This allowance consists of an amount identified for specific customers and an amount based on overall estimated exposure. If the financial condition of our customers were to deteriorate, resulting in an impairment in their ability to make payments, additional allowances may be required, we may be required to defer revenue recognition on sales to affected customers, and we may be required to pay higher credit insurance premiums, any of which could adversely affect our operating results. In the future, we may have to record additional reserves or write-offs and/or defer revenue on certain sales transactions which could negatively impact our financial results.

### Stock Repurchase Program

Our Board of Directors has authorized us, subject to certain specifications, to repurchase shares of our common stock up to an aggregate maximum amount of \$2.7 billion through May 2013. The repurchases will be made from time to time in the open market, in privately negotiated transactions, or in structured stock repurchase programs, and may be made in one or more larger repurchases, in compliance with Rule 10b-18 of the Securities Exchange Act of 1934, as amended, subject to market conditions, applicable legal requirements, and other factors. The program does not obligate NVIDIA to acquire any particular amount of common stock and the program may be suspended at any time at our discretion. As part of our share repurchase program, we have entered into, and we may continue to enter into, structured share repurchase transactions with financial institutions. These agreements generally require that we make an up-front payment in exchange for the right to receive a fixed number of shares of our common stock upon execution of the agreement, and a potential incremental number of shares of our common stock, within a pre-determined range, at the end of the term of the agreement. We did not enter into any structured share repurchase transactions or otherwise purchase any shares of our common stock during the three and nine months ended October 31, 2010. Through October 31, 2010, we have repurchased an aggregate of 90.9 million shares under our stock repurchase program for a total cost of \$1.46 billion. As of October 31, 2010, we are authorized, subject to certain specifications, to repurchase shares of our common stock up to \$1.24 billion through May 2013.

### Operating Capital and Capital Expenditure Requirements

We believe that our existing cash balances and anticipated cash flows from operations will be sufficient to meet our operating, acquisition and capital requirements for at least the next twelve months. However, there is no assurance that we will not need to raise additional equity or debt financing within this time frame. Additional financing may not be available on favorable terms or at all and may be dilutive to our then-current stockholders. We also may require additional capital for other purposes not presently contemplated. If we are unable to obtain sufficient capital, we could be required to curtail capital equipment purchases or research and development expenditures, which could harm our business. Factors that could affect our cash used or generated from operations and, as a result, our need to seek additional borrowings or capital include:

- decreased demand and market acceptance for our products and/or our customers' products;
- inability to successfully develop and produce in volume production our next-generation products;
- competitive pressures resulting in lower than expected average selling prices; and
- new product announcements or product introductions by our competitors.

We expect to spend approximately \$50 million for capital expenditures during the remainder of fiscal year 2011, primarily for software licenses. In addition, we may continue to use cash in connection with the acquisition of new businesses or assets.

For additional factors see "Item 1A. Risk Factors - Risks Related to Our Business, Industry and Partners - Our revenue may fluctuate while our operating expenses are relatively fixed, which makes our results difficult to predict and could cause our results to fall short of expectations."

### 3dfx Asset Purchase

On December 15, 2000, NVIDIA Corporation and one of our indirect subsidiaries entered into an Asset Purchase Agreement, or APA, which closed on April 18, 2001, to purchase certain graphics chip assets from 3dfx. Under the terms of the APA, the cash consideration due at the closing was \$70.0 million, less \$15.0 million that was loaned to 3dfx pursuant to a Credit Agreement dated December 15, 2000. The APA also provided, subject to the other

provisions thereof, that if 3dfx properly certified that all its debts and other liabilities had been provided for, then we would have been obligated to pay 3dfx one million shares, which due to subsequent stock splits now totals six million shares, of NVIDIA common stock. If 3dfx could not make such a certification, but instead properly certified that its debts and liabilities could be satisfied for less than \$25.0 million, then 3dfx could have elected to receive a cash payment equal to the amount of such debts and liabilities and a reduced number of shares of our common stock, with such reduction calculated by dividing the cash payment by \$25.00 per share. If 3dfx could not certify that all of its debts and liabilities had been provided for, or could not be satisfied, for less than \$25.0 million, we would not be obligated under the agreement to pay any additional consideration for the assets.

In October 2002, 3dfx filed for Chapter 11 bankruptcy protection in the United States Bankruptcy Court for the Northern District of California. In March 2003, we were served with a complaint filed by the Trustee appointed by the Bankruptcy Court which sought, among other things, payments from us as additional purchase price related to our purchase of certain assets of 3dfx. In early November 2005, NVIDIA and the Official Committee of Unsecured Creditors, or the Creditors' Committee, agreed to a Plan of Liquidation of 3dfx, which included a conditional settlement of the Trustee's claims against us. This conditional settlement was subject to a confirmation process through a vote of creditors and the review and approval of the Bankruptcy Court. The conditional settlement called for a payment by NVIDIA of approximately \$30.6 million to the 3dfx estate. Under the settlement, \$5.6 million related to various administrative expenses and Trustee fees, and \$25.0 million related to the satisfaction of debts and liabilities owed to the general unsecured creditors of 3dfx. Accordingly, during the three month period ended October 30, 2005, we recorded \$5.6 million as a charge to settlement costs and \$25.0 million as additional purchase price for 3dfx. The Trustee advised that he intended to object to the settlement.

Please refer to Note 12 of the Notes to the Condensed Consolidated Financial Statements for further information regarding this litigation.

## Product Defect

Our products are complex and may contain defects or experience failures due to any number of issues in design, fabrication, packaging, materials and/or use within a system. If any of our products or technologies contains a defect, compatibility issue or other error, we may have to invest additional research and development efforts to find and correct the issue. Such efforts could divert our management's and engineers' attention from the development of new products and technologies and could increase our operating costs and reduce our gross margin. In addition, an error or defect in new products or releases or related software drivers after commencement of commercial shipments could result in failure to achieve market acceptance or loss of design wins. Also, we may be required to reimburse customers, including for customers' costs to repair or replace the products in the field, which could cause our revenue to decline. A product recall or a significant number of product returns could be expensive, damage our reputation and could result in the shifting of business to our competitors. Costs associated with correcting defects, errors, bugs or other issues could be significant and could materially harm our financial results.

During the second quarter of fiscal year 2011, we recorded an additional charge to cover the estimated remaining customer warranty, repair, return, replacement and other costs arising from a weak die/package material set in certain versions of our previous generation MCP and GPU products used in notebook configurations. The net charge amounted to \$193.9 million, of which \$181.2 million was charged against cost of revenue. The extra remediation costs are primarily due to additional platforms from late failing systems that we had not previously considered to be at risk. Included in the charge are the estimated costs of implementing a settlement reached during the second quarter of fiscal year 2011 with the plaintiffs of a putative consumer class action lawsuit related to this same matter and the other estimated consumer class action settlement. As a result of this settlement, the other related estimated settlement, and offsetting insurance reimbursements, we recorded a net charge of \$12.7 million to sales, general and administrative expense during the second quarter of fiscal year 2011. Together with the \$282.0 million net charge we had previously recorded for related estimated costs, this brings the total cumulative net charge to \$475.9 million, of which \$466.4 million has been charged against cost of revenue.

The previous generation MCP and GPU products that are impacted were included in a number of notebook products that were shipped and sold in significant quantities. Certain notebook configurations of these products are failing in the field at higher than normal rates. Testing suggests a weak material set of die/package combination, system thermal management designs, and customer use patterns are contributing factors for these failures. We have worked with our customers to develop and have made available for download a software driver to cause the system fan to begin operation at the powering up of the system and reduce the thermal stress on these chips. We have also recommended to our customers that they consider changing the thermal management of the products in their notebook system designs. We intend to fully support our customers in their repair and replacement of these impacted products that fail, and their other efforts to mitigate the consequences of these failures. The weak die/package material combination is not used in any of our products that are currently in production.

In September, October and November 2008, several putative securities class action lawsuits were filed against us, asserting various claims related to the impacted MCP and GPU products. Please refer to Note 12 of these Notes to the Condensed Consolidated Financial Statements for further information regarding this litigation and the settlement.

### Contractual Obligations

At October 31, 2010, we had outstanding inventory purchase obligations totaling approximately \$448.7 million. There were no other material changes in our contractual obligations from those disclosed in our Annual Report on Form 10-K for the fiscal year ended January 31, 2010, other than the lease amendments on August 18, 2010, for four of our primary headquarters buildings in Santa Clara, California. The amended leases (i) extend the term of each building lease by seven years, (ii) reduce the base monthly rent payable by NVIDIA, and (iii) provide for the return of security deposits to NVIDIA. The lease amendments take effect in fiscal year 2013. As a result of these amendments our related contractual obligations increased by \$10.6 million for fiscal year 2013, \$11.6 million for fiscal year 2014, \$11.9 million for fiscal year 2015 and \$52.3 million for fiscal years 2016 and thereafter.

Please see Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources" in our Annual Report on Form 10-K for a description of our contractual obligations.

### Off-Balance Sheet Arrangements

As of October 31, 2010, we had no material off-balance sheet arrangements as defined in Regulation S-K 303(a)(4)(ii).

### Adoption of New Accounting Pronouncements

Please see Note 1 of the Notes to Condensed Consolidated Financial Statements for a discussion of adoption of new accounting pronouncements.

### Recently Issued Accounting Pronouncements

Please see Note 1 of the Notes to Condensed Consolidated Financial Statements for a discussion of recently issued accounting pronouncements.



## ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

## Investment and Interest Rate Risk

As of October 31, 2010 and January 31, 2010, we had \$1.99 billion and \$1.73 billion, respectively, in cash, cash equivalents and marketable securities. We invest in a variety of financial instruments, consisting principally of cash and cash equivalents, commercial paper, mortgage-backed securities issued by government-sponsored enterprises, equity securities, money market funds and debt securities of corporations, municipalities and the United States government and its agencies. As of October 31, 2010, we did not have any investments in auction-rate preferred securities. Our investments are denominated in United States dollars.

All of the cash equivalents and marketable securities are treated as “available-for-sale.” Investments in both fixed rate and floating rate interest earning instruments carry a degree of interest rate risk. Fixed rate securities may have their market value adversely impacted due to a rise in interest rates, while floating rate securities may produce less income than expected if interest rates fall. Due in part to these factors, our future investment income may fall short of expectations due to changes in interest rates or if the decline in fair value of our publicly traded debt or equity investments is judged to be other-than-temporary. We may suffer losses in principal if we are forced to sell securities that decline in securities market value due to changes in interest rates. However, because any debt securities we hold are classified as “available-for-sale,” no gains or losses are realized in our Condensed Consolidated Statements of Operations due to changes in interest rates unless such securities are sold prior to maturity or unless declines in value are determined to be other-than-temporary. These securities are reported at fair value with the related unrealized gains and losses included in accumulated other comprehensive income (loss), a component of stockholders’ equity, net of tax.

As of October 31, 2010, we performed a sensitivity analysis on our floating and fixed rate financial investments. According to our analysis, parallel shifts in the yield curve of both plus or minus 0.5% would result in changes in fair market values for these investments of approximately \$9.2 million.

The financial turmoil that affected the banking system and financial markets and increased the possibility that financial institutions might consolidate or go out of business resulted in a tightening in the credit markets, a low level of liquidity in many financial markets, and extreme volatility in fixed income, credit, currency and equity markets. There could be a number of follow-on effects from the credit crisis on our business, including insolvency of key suppliers resulting in product delays; inability of customers, including channel partners, to obtain credit to finance purchases of our products and/or customer, including channel partner, insolvencies; and failure of financial institutions, which may negatively impact our treasury operations. Other income and expense could also vary materially from expectations depending on gains or losses realized on the sale or exchange of financial instruments; impairment charges related to debt securities as well as equity and other investments; interest rates; and cash, cash equivalent and marketable securities balances. Volatility in the financial markets and economic uncertainty increases the risk that the actual amounts realized in the future on our financial instruments could differ significantly from the fair values currently assigned to them. As of October 31, 2010, our investments in government agencies and government sponsored enterprises represented approximately 60% of our total investment portfolio, while the financial sector accounted for approximately 32% of our total investment portfolio. Of the financial sector investments, over half are guaranteed by the U.S. government. All of our investments are with A/A2 or better rated securities. If the fair value of our investments in these sectors was to decline by 2%-5%, fair market values for these investments would decline by approximately \$32-\$79 million.

## Exchange Rate Risk

We consider our direct exposure to foreign exchange rate fluctuations to be minimal. Gains or losses from foreign currency remeasurement are included in "Other income (expense), net" in our Condensed Consolidated Financial Statements and to date have not been significant. The impact of foreign currency transaction loss included in determining net income (loss) for the first nine months of fiscal years 2011 and 2010 was \$2.4 million and \$3.2 million, respectively. Currently, revenue and arrangements with third-party manufacturers provide for pricing and payment in United States dollars, and, therefore, are not subject to exchange rate fluctuations. Increases in the value of the United States' dollar relative to other currencies would make our products more expensive, which could negatively impact our ability to compete. Conversely, decreases in the value of the United States' dollar relative to other currencies could result in our suppliers raising their prices in order to continue doing business with us. Fluctuations in currency exchange rates could harm our business in the future.

We may enter into certain transactions such as forward contracts which are designed to reduce the future potential impact resulting from changes in foreign currency exchange rates. There were no forward exchange contracts outstanding at October 31, 2010.

## ITEM 4. CONTROLS AND PROCEDURES

### Controls and Procedures

#### Disclosure Controls and Procedures

Based on their evaluation as of October 31, 2010, our management, including our Chief Executive Officer and Chief Financial Officer, has concluded that our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended) were effective.

#### Changes in Internal Control Over Financial Reporting

There were no changes in our internal controls over financial reporting during our fiscal quarter ended October 31, 2010 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

#### Inherent Limitations on Effectiveness of Controls

Our management, including our Chief Executive Officer and Chief Financial Officer, does not expect that our disclosure controls and procedures or our internal controls, will prevent all error and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within NVIDIA have been detected.

## PART II

### ITEM 1. LEGAL PROCEEDINGS

Please see Part I, Item 1, Note 12 of the Notes to Condensed Consolidated Financial Statements for a discussion of our legal proceedings.

### ITEM 1A. RISK FACTORS

In evaluating NVIDIA and our business, the following factors should be considered in addition to the other information in this Quarterly Report on Form 10-Q. Before you buy our common stock, you should know that making such an investment involves some risks including, but not limited to, the risks described below. Additionally, any one of the following risks could seriously harm our business, financial condition and results of operations, which could cause our stock price to decline. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also impair our business operations.

#### Risks Related to Our Business, Industry and Partners

Global economic conditions may adversely affect our business and financial results.

Our operations and performance depend significantly on worldwide economic conditions. Uncertainty about current global economic conditions poses a continuing risk to our business as consumers and businesses have postponed spending in response to tighter credit, negative financial news and/or declines in income or asset values, which have reduced the demand for our products. Specifically, during the second quarter of fiscal year 2011, we believe that rising memory costs and the weakness of the Euro contributed to increased end market prices of graphics add-in card and that, in addition, the growing economic concerns in Europe and China began to create pressure on discretionary spending in those regions. As a result, we believe the market moved towards lower-cost GPUs and PCs with integrated graphics, both of which we believe negatively impacted our GPU Business revenue for the second quarter of fiscal year 2011. While rising memory costs and the weakness of the Euro abated somewhat in the third quarter of fiscal 2011, these business conditions could further harm our business, financial condition and operating results.

Other factors that could depress demand for our products in the future include conditions in the residential real estate and mortgage markets, expectations for inflation, labor and healthcare costs, access to credit, consumer confidence, and other macroeconomic factors affecting consumer and business spending behavior. These and other economic factors have reduced demand for our products in the past and could further harm our business, financial condition and operating results.

If we are unable to compete in the markets for our products, our financial results will be adversely impacted.

The market for our products is characterized by rapid technological change, new product introductions, evolving industry standards and declining average selling prices. We believe that the principal competitive factors in this market are performance, product bundling by competitors with multiple product lines, breadth and frequency of product offerings, access to customers and distribution channels, backward-forward software support, conformity to industry standard Application Programming Interface, or APIs, manufacturing capabilities, price of processors, and total system costs. We believe that our ability to remain competitive will depend on how well we are able to anticipate the features and functions that customers will demand and whether we are able to deliver consistent volumes of our products at acceptable levels of quality and at competitive prices. We expect competition to increase from both existing competitors and new market entrants with products that may be less costly than ours, or may provide better performance or additional features not provided by our products. In addition, it is possible that new competitors or alliances among competitors could emerge and acquire significant market share.

A significant source of competition is from companies that provide or intend to provide GPUs and mobile and consumer products. Some of our competitors may have greater marketing, financial, distribution and manufacturing resources than we do and may be more able to adapt to customer or technological changes.

Our current competitors include the following:

- suppliers of GPUs, including chipsets, that incorporate 3D graphics functionality as part of their existing solutions, such as Advanced Micro Devices Inc., or AMD, Intel Corporation, or Intel, Matrox Electronics Systems Ltd., SIS, and VIA; and
- suppliers of system-on-a-chip products that support tablets, netbooks, PNDs, PMPs, PDAs, cellular phones, handheld devices or embedded devices such as AMD, Broadcom, Freescale Semiconductor Inc., Fujitsu Limited, Imagination Technologies Ltd., Intel, ARM Holdings plc, Marvell Technology Group Ltd, or Marvell, NEC Corporation, Qualcomm Incorporated, Renesas Technology, Samsung, Seiko-Epson, ST Microelectronics, Texas Instruments Incorporated, and Toshiba America, Inc.

If and to the extent we offer products in new markets, we may face competition from some of our existing competitors as well as from companies with which we currently do not compete. In the case of our CPB, our Tegra products primarily compete in tablets, smartbooks, smartphones and other handheld consumer devices. We cannot accurately predict if we will compete successfully in any of the new markets we may enter. If we are unable to compete in our current or new markets, demand for our products could decrease which could cause our revenue to decline and our financial results to suffer.

Our business is cyclical in nature and has experienced severe downturns that have, and may in the future harm our business and financial results.

Our business is directly affected by market conditions in the highly cyclical semiconductor industry. The semiconductor industry has been adversely affected by many factors, including the global downturn, ongoing efforts by our customers to reduce their spending, diminished product demand, increased inventory levels, lower average selling prices, uncertainty regarding long-term growth rates and underlying financial health and increased competition. These factors, could, among other things, limit our ability to maintain or increase our sales or recognize revenue and in turn adversely affect our business, operating results and financial condition. If our actions to reduce our operating expenses to sufficiently offset these factors when they occur are unsuccessful, our operating results will suffer.

We depend on foundries to manufacture our products and these third parties may not be able to satisfy our manufacturing requirements, which would harm our business.

We do not manufacture the silicon wafers used for our products and do not own or operate a wafer fabrication facility. Instead, we are dependent on industry-leading foundries, such as Taiwan Semiconductor Manufacturing Corporation, or TSMC, to manufacture our semiconductor wafers using their fabrication equipment and techniques. A substantial portion of our wafers are supplied by TSMC. The foundries, which have limited capacity, also manufacture products for other semiconductor companies, including some of our competitors. Since we do not have long-term commitment contracts with any of these foundries, they do not have an obligation to provide us with any minimum quantity of product at any time except as may be provided in a specific purchase order. Most of our products are only manufactured by one foundry at a time. In times of high demand, the foundries could choose to prioritize their capacity for other companies, reduce or eliminate deliveries to us, or increase the prices that they charge us. If we are unable to meet customer demand due to reduced or eliminated deliveries or have to increase the prices of our products, we could lose sales to customers, which would negatively impact our revenue and our reputation. For example, revenue during the first quarter of fiscal year 2011 was somewhat limited by supply constraints related to 40nm products. These supply constraints were driven by limited 40nm wafer foundry capacity as well as challenges related to 40nm process manufacturing yields. As a result, we were forced to allocate our available 40nm product supply among our customers.

Because the lead-time needed to establish a strategic relationship with a new manufacturing partner and achieve initial production could be over a year, we do not have an alternative source of supply for our products. In addition, the time and effort to qualify a new foundry would result in additional expense, diversion of resources, and could result in lost sales, any of which would negatively impact our financial results. We believe that long-term market acceptance for our products will depend on reliable relationships with the third-party manufacturers we use to ensure adequate product supply and competitive pricing to respond to customer demand.

If our third-party foundries are not able to transition to new manufacturing process technologies or develop, obtain or successfully implement high quality, leading-edge process technologies our operating results and gross margin could be adversely affected.

We use the most advanced manufacturing process technology appropriate for our products that is available from our third-party foundries. As a result, we continuously evaluate the benefits of migrating our products to smaller geometry process technologies in order to improve performance and reduce costs. We believe this strategy will help us remain competitive. Our current product families are manufactured using 0.15 micron, 0.14 micron, 0.13 micron, 0.11 micron, 90 nanometer, 65 nanometer, 55 nanometer and 40 nanometer process technologies. Manufacturing process technologies are subject to rapid change and require significant expenditures for research and development, which could negatively impact our operating expenses and gross margin.

We have experienced difficulty in migrating to new manufacturing processes in the past and, consequently, have suffered reduced yields, delays in product deliveries and increased expense levels. We may face similar difficulties, delays and expenses as we continue to transition our new products to smaller geometry processes. Moreover, we are dependent on our third-party manufacturers to invest sufficient funds in new manufacturing processes in order to have ample capacity for all of their customers and to develop the processes in a timely manner. Our product cycles may also depend on our third-party manufacturers migrating to smaller geometry processes successfully and in time for us to meet our customer demands. Some of our competitors own their manufacturing facilities and may be able to move to a new state of the art manufacturing process more quickly or more successfully than our manufacturing partners. If our suppliers fall behind our competitors in manufacturing processes, the development and customer demand for our products and the use of our products could be negatively impacted. If we are forced to use larger geometric processes in manufacturing a product than our competition, our gross margin may be reduced. The inability by us or our third-party manufacturers to effectively and efficiently transition to new manufacturing process technologies may adversely affect our operating results and our gross margin.

We cannot be certain that our third-party foundries will be able to develop, obtain or successfully implement high quality, leading-edge process technologies needed to manufacturer our products profitably or on a timely basis or that our competitors (including those that own their own manufacturing facilities) will not develop such high quality, leading-edge process technologies earlier. If our third party-foundries experience manufacturing inefficiencies, we may fail to achieve acceptable yields or experience product delivery delays. If our third-party foundries fall behind our competitors (including those that own their own manufacturing facilities), the development and customer demand for our products and the use of our products could be negatively impacted. Additionally, we cannot be certain that our third-party foundries will manufacturer our products at a price that is competitive to what our competitors pay. If our third-party foundries do not charge us a competitive price, our operating results and gross margin will be negatively impacted.

Failure to achieve expected manufacturing yields for our products could negatively impact our financial results and damage our reputation.

Manufacturing yields for our products are a function of product design, which is developed largely by us, and process technology, which typically is proprietary to the manufacturer. Low yields may result from either product design or process technology failure. We do not know a yield problem exists until our design is manufactured. When a yield issue is identified, the product is analyzed and tested to determine the cause. As a result, yield problems may not be identified until well into the production process. Resolution of yield problems requires cooperation by, and communication between, us and the manufacturer. Because of our potentially limited access to wafer foundry capacity, decreases in manufacturing yields could result in an increase in our costs and force us to allocate our available product supply among our customers. Lower than expected yields could potentially harm customer relationships, our reputation and our financial results.

Our failure to estimate customer demand properly could adversely affect our financial results.

We manufacture our products based on forecasts of customer demand in order to have shorter shipment lead times and quicker delivery schedules for our customers. As a result, we may build inventories for anticipated periods of growth which do not occur or may build inventory anticipating demand for a product that does not materialize. In forecasting demand, we make multiple assumptions any of which may prove to be incorrect. Situations that may result in excess or obsolete inventory include:

- changes in business and economic conditions, including downturns in the semiconductor industry and/or overall economy;



- changes in consumer confidence caused by changes in market conditions, including changes in the credit market, expectations for inflation, and energy prices;
  - if there were a sudden and significant decrease in demand for our products;
- if there were a higher incidence of inventory obsolescence because of rapidly changing technology and customer requirements;
- if we fail to estimate customer demand properly for our older products as our newer products are introduced; or
  - if our competition were to take unexpected competitive pricing actions.

Any inability to sell products to which we have devoted resources could harm our business. In addition, cancellation or deferral of customer purchase orders could result in our holding excess inventory, which could adversely affect our gross margin and restrict our ability to fund operations. Additionally, because we often sell a substantial portion of our products in the last month of each quarter, we may not be able to reduce our inventory purchase commitments in a timely manner in response to customer cancellations or deferrals. We could be subject to excess or obsolete inventories and be required to take corresponding inventory write-downs and/or a reduction in average selling prices if growth slows or does not materialize, or if we incorrectly forecast product demand, which could negatively impact our financial results.

Conversely, if we underestimate our customers' demand for our products, our third party manufacturing partners may not have adequate lead-time or capacity to increase production for us meaning that we may not be able to obtain sufficient inventory to fill our customers' orders on a timely basis. Even if we are able to increase production levels to meet customer demand, we may not be able to do so in a cost effective or timely manner. Inability to fulfill our customers' orders on a timely basis, or at all, could damage our customer relationships, result in lost revenue, cause a loss in market share, impact our customer relationships or damage our reputation, any of which could adversely impact our business.

Because our gross margin for any period depends on a number of factors, our failure to forecast changes in any of these factors could adversely affect our gross margin.

We are focused on improving our gross margin. Our gross margin for any period depends on a number of factors, including:

- the mix of our products sold;
  - average selling prices;
- introduction of new products;
  - product transitions;
  - sales discounts;
- unexpected pricing actions by our competitors;
  - the cost of product components; and
- the yield of wafers produced by the foundries that manufacture our products.

If we do not correctly forecast the impact of any of the relevant factors on our business, there may not be any actions we can take or we may not be able to take any possible actions in time to counteract any negative impact on our gross margin. In addition, if we are unable to meet our gross margin target for any period or the target set by analysts, the trading price of our common stock may decline.

Our revenue may fluctuate while our operating expenses are relatively fixed, which makes our results difficult to predict and could cause our results to fall short of expectations.

Demand for many of our revenue components fluctuates and is difficult to predict, and our operating expenses are relatively fixed and largely independent of revenue. Therefore, it is difficult for us to accurately forecast revenue and profits or losses in any particular period. Our operating expenses, which are comprised of research and development expenses and sales, general and administrative expenses represented 34% and 31% of our total revenue for each of the third quarters of fiscal years 2011 and 2010 respectively, and 34% and 41%, of our total revenue for the first nine months of fiscal years 2011 and 2010, respectively. Since we often recognize a substantial portion of our revenue in the last month of each quarter, we may not be able to adjust our operating expenses in a timely manner in response to any unanticipated revenue shortfalls in any quarter. Further, some of our operating expenses, like stock-based compensation expense, can only be adjusted over a longer period of time and cannot be reduced during a quarter. If we are unable to reduce operating expenses quickly in response to any revenue shortfalls, our financial results will be negatively impacted.

Any one or more of the risks discussed in this Quarterly Report on Form 10-Q or other factors could prevent us from achieving our expected future revenue or net income. Accordingly, we believe that period-to-period comparisons of our results of operations should not be relied upon as an indication of future performance. Similarly, the results of any quarterly or full fiscal year period are not necessarily indicative of results to be expected for a subsequent quarter or a

full fiscal year. As a result, it is possible that in some quarters our operating results could be below the expectations of securities analysts or investors, which could cause the trading price of our common stock to decline. We believe that our quarterly and annual results of operations may continue to be affected by a variety of factors that could harm our revenue, gross profit and results of operations.

We are dependent on the personal computer market and its rate of growth in the future may have a negative impact on our business.

We derive and expect to continue to derive the majority of our revenue from the sale or license of products for use in the desktop personal computer, or PC, and notebook PC markets, including professional workstations. A reduction in sales of PCs, or a reduction in the growth rate of PC sales, may reduce demand for our products. These changes in demand could be large and sudden. Since PC manufacturers often build inventories during periods of anticipated growth, they may be left with excess inventories if growth slows or if they incorrectly forecast product transitions. In these cases, PC manufacturers may abruptly suspend substantially all purchases of additional inventory from suppliers like us until their excess inventory has been absorbed, which would have a negative impact on our financial results.

As Intel and AMD continue to pursue platform solutions, we may not be able to successfully compete and our business would be negatively impacted.

We expect substantial competition from both Intel's and AMD's strategy of selling platform solutions, such as the success Intel achieved with its Centrino platform solution. AMD is also shipping a platform solution. Additionally, Intel and AMD have each announced its intention to integrate a central processing unit, or CPU, and a GPU on the same chip, as evidenced by AMD's announcement of its Fusion processor project and Intel's pending introduction of SandyBridge products. If AMD and Intel continue to pursue platform solutions, we may not be able to successfully compete and our business would be negatively impacted.

Our business results could be adversely affected if the identification and development of new products or entry into or development of a new market is delayed or unsuccessful.

In order to maintain or improve our financial results, we will need to continue to identify and develop new products as well as identify and enter new markets. As our GPUs and other processors develop and competition increases, we anticipate that product life cycles at the high end will remain short and average selling prices will decline. In particular, average selling prices and gross margins for our GPUs and other processors could decline as each product matures and as unit volume increases. As a result, we will need to introduce new products and enhancements to existing products to maintain or improve overall average selling prices, our gross margin and our financial results. We believe the success of our new product introductions will depend on many factors outlined elsewhere in these risk factors as well as the following:

- market demand for new products and enhancements to existing products;
- timely completion and introduction of new product designs and new opportunities for existing products;
  - seamless transitions from an older product to a new product;
  - differentiation of our new products from those of our competitors;
    - delays in volume shipments of our products;
- market acceptance of our products instead of our customers' products; and
- availability of adequate quantity and configurations of various types of memory products.

In the past, we have experienced delays in the development and adoption of new products and have been unable to successfully manage product transitions from older to newer products resulting in obsolete inventory.

To be successful, we must also enter new markets or develop new uses for our future or existing products. We cannot accurately predict if our current or existing products or technologies will be successful in the new opportunities or markets that we identify for them or that we will compete successfully in any new markets we may enter. For example, we have developed products and other technology in order for certain general-purpose computing operations to be performed on a GPU rather than a CPU. This general purpose computing, which is often referred to as GP computing, was a new use for the GPU which had been entirely used for graphics rendering. During fiscal year 2010, we introduced our next generation CUDA GPU architecture, codenamed "Fermi," which we expect to be the foundation for computational GPUs and enable breakthroughs in both graphics and parallel computing. Some of our competitors, including Intel, are now developing their own solutions for the discrete graphics and computing markets. Our failure to successfully develop, introduce or achieve market acceptance for new GPUs, other products or other technologies or to enter into new markets or identify new uses for existing or future products, could result in rapidly declining average selling prices, reduced demand for our products or loss of market share any of which could cause our revenue, gross margin and overall financial results to suffer.

If we are unable to achieve design wins, our products may not be adopted by our target markets or customers either of which could negatively impact our financial results.

The success of our business depends to a significant extent on our ability to develop new competitive products for our target markets and customers. We believe achieving design wins, which entails having our existing and future products chosen for hardware components or subassemblies designed by OEMs, original design manufacturers or ODMs, add-in board and motherboard manufacturers, is an integral part of our future success. Our OEM, ODM, and add-in board and motherboard manufacturers' customers typically introduce new system configurations as often as twice per year, typically based on spring and fall design cycles or in connection with trade shows. Accordingly, when our customers are making their design decisions, our existing products must have competitive performance levels or we must timely introduce new products in order to be included in our customers' new system configurations. This requires that we:

- anticipate the features and functionality that customers and consumers will demand;
- incorporate those features and functionalities into products that meet the exacting design requirements of our customers;
  - price our products competitively; and
  - introduce products to the market within our customers' limited design cycles

If OEMs, ODMs, and add-in board and motherboard manufacturers do not include our products in their systems, they will typically not use our products in their systems until at least the next design configuration. Therefore, we endeavor to develop close relationships with our OEMs and ODMs, in an attempt to better anticipate and address customer needs in new products so that we will achieve design wins.

Our ability to achieve design wins also depends in part on our ability to identify and be compliant with evolving industry standards. Unanticipated changes in industry standards could render our products incompatible with products developed by major hardware manufacturers and software developers like AMD, Intel and Microsoft Corporation, or Microsoft. If our products are not in compliance with prevailing industry standards, we may not be designed into our customers' product designs. However, to be compliant with changes to industry standards, we may have to invest significant time and resources to redesign our products which could negatively impact our gross margin or operating results. If we are unable to achieve new design wins for existing or new customers, we may lose market share and our operating results would be negatively impacted.

If our products do not continue to be adopted by our target markets or if the demand for new and innovative products in our target markets decreases, our business and operating results would suffer.

Our success depends in part upon continued broad adoption of our processors for 3D graphics and multimedia in desktop PC, notebook PC, workstation, high-performance computing, netbooks, smartbooks, tablets, smartphones, and video game console applications. The market for processors has been characterized by unpredictable and sometimes rapid shifts in the popularity of products, often caused by the publication of competitive industry benchmark results, changes in pricing of dynamic random-access memory devices and other changes in the total system cost of add-in boards, as well as by severe price competition and by frequent new technology and product introductions. Broad market acceptance is difficult to achieve and such market acceptance, if achieved, is difficult to sustain due to intense competition and frequent new technology and product introductions. As such, our financial results would suffer if for any reason our products do not continue to achieve widespread adoption by the market. If we are unable to complete the timely development of new products or if we were unable to successfully and cost-effectively manufacture and deliver products that meet the requirements of the desktop PC, notebook PC, workstation, high-performance computing, netbook, smartbooks, tablets, smartphones, and video game console markets, we may experience a decrease in revenue which could negatively impact our operating results.

Additionally, there can be no assurance that the industry will continue to demand new products with improved standards, features or performance. If our customers, OEMs, ODMs, add-in-card and motherboard manufacturers, system builders and consumer electronics companies, do not continue to design products that require more advanced or efficient processors and/or the market does not continue to demand new products with increased performance, features, functionality or standards, sales of our products could decline and the markets for our products could shrink. Decreased sales of our products for these markets could negatively impact our revenue and our financial results.

If our products contain significant defects our financial results could be negatively impacted, our reputation could be damaged and we could lose market share.

Our products are complex and may contain defects or experience failures due to any number of issues in design, fabrication, packaging, materials and/or use within a system. If any of our products or technologies contains a defect, compatibility issue or other error, we may have to invest additional research and development efforts to find and correct the issue. Such efforts could divert our engineers' attention from the development of new products and technologies and could increase our operating costs and reduce our gross margin. In addition, an error or defect in new products or releases or related software drivers after commencement of commercial shipments could result in failure

to achieve market acceptance or loss of design wins. Also, we may be required to reimburse customers, including our customers' costs to repair or replace products in the field. A product recall or a significant number of product returns could be expensive, damage our reputation, could result in the shifting of business to our competitors and could result in litigation against us. Costs associated with correcting defects, errors, bugs or other issues could be significant and could materially harm our financial results. During fiscal years 2009 and 2010 and the nine months ended fiscal year 2011 we recorded net warranty charges of \$466.4 million against cost of revenue to cover anticipated customer warranty, repair, return, replacement and other costs arising from a weak die/package material set used in certain versions of our previous generation MCP and GPU products shipped after July 2008 and used in notebook configurations. Please see the risk entitled "We are subject to litigation arising from alleged defects in our previous generation MCP and GPU products, which if determined adversely to us, could harm our business" for further information regarding this product defect.

We may have to invest more resources in research and development than anticipated, which could increase our operating expenses and negatively impact our operating results.

If new competitors, technological advances by existing competitors, our entry into new markets, or other competitive factors require us to invest significantly greater resources than anticipated in our research and development efforts, our operating expenses would increase. Our engineering and technical resources included 4,059 full-time employees as of October 31, 2010 and 3,864 employees as of October 25, 2009, respectively. Research and development expenditures were \$204.5 million and \$197.9 million for the third quarter of fiscal years 2011 and 2010, respectively, and \$633.3 million and \$692.6 million for the first nine months of fiscal years 2011 and 2010, respectively. Research and development expenses included stock-based compensation expense of \$14.1 million and \$12.9 million for the third quarter of fiscal years 2011 and 2010, respectively, and \$43.3 and \$47.4 million for the first nine months of fiscal years 2011 and 2010, respectively. Additionally, during the first nine months of fiscal year 2010, research and development expenses included stock-based compensation of \$90.5 million related to the purchase of certain outstanding options that were tendered in March 2009. If we are required to invest significantly greater resources than anticipated in research and development efforts without a corresponding increase in revenue, our operating results could decline. Research and development expenses are likely to fluctuate from time to time to the extent we make periodic incremental investments in research and development and these investments may be independent of our level of revenue which could negatively impact our financial results. In order to remain competitive, we anticipate that we will continue to devote substantial resources to research and development, and we expect these expenses to increase in absolute dollars in the foreseeable future due to the increased complexity and the greater number of products under development.

We are dependent on third parties for assembly, testing and packaging of our products, which reduce our control over the delivery schedule, product quantity or product quality.

Our products are assembled, tested and packaged by independent subcontractors, such as Advanced Semiconductor Engineering, Inc., Amkor Technology, JSI Logistics, Ltd., King Yuan Electronics Co., Siliconware Precision Industries Co. Ltd., and ChipPAC. As a result, we do not directly control our product delivery schedules, product quantity, or product quality. All of these subcontractors assemble, test and package products for other companies, including some of our competitors. Since we do not have long-term agreements with our subcontractors, when demand for subcontractors to assemble, test or package products is high, our subcontractors may decide to prioritize the orders of other customers over our orders. Since the time required to qualify a different subcontractor to assemble, test or package our products can be lengthy, if we have to find a replacement subcontractor we could experience significant delays in shipments of our products, product shortages, a decrease in the quality of our products, or an increase in product cost. Any product shortages or quality assurance problems could increase the costs of manufacture, assembly or testing of our products, which could cause our gross margin and revenue to decline.

We rely on third-party vendors to supply software development tools to us for the development of our new products and we may be unable to obtain the tools necessary to develop or enhance new or existing products.

We rely on third-party software development tools to assist us in the design, simulation and verification of new products or product enhancements. To bring new products or product enhancements to market in a timely manner, or at all, we need software development tools that are sophisticated enough or technologically advanced enough to complete our design, simulations and verifications. In the past, we have experienced delays in the introduction of products as a result of the inability of then available software development tools to fully simulate the complex features and functionalities of our products. In the future, the design requirements necessary to meet consumer demands for more features and greater functionality from our products may exceed the capabilities of available software



development tools. Unavailability of software development tools may result in our missing design cycles or losing design wins, either of which could result in a loss of market share or negatively impact our operating results.

Because of the importance of software development tools to the development and enhancement of our products, a critical component of our product development efforts is our partnerships with leaders in the computer-aided design industry, including Cadence Design Systems, Inc. and Synopsys, Inc. We have invested significant resources to develop relationships with these industry leaders and have often assisted them in the definition of their new products. We believe that forming these relationships and utilizing next-generation development tools to design, simulate and verify our products will help us remain at the forefront of the 3D graphics, communications and networking segments and develop products that utilize leading-edge technology on a rapid basis. If these relationships are not successful, we may be unable to develop new products or product enhancements in a timely manner, which could result in a loss of market share, a decrease in revenue or negatively impact our operating results.

We sell our products to a small number of customers and our business could suffer if we lose any of these customers.

We have a limited number of customers and our sales are highly concentrated. Aggregate sales to customers in excess of 10% of total revenue for the third quarter and first nine months of fiscal year 2011, was 12% from one customer and 13% from one customer respectively. Aggregate sales to customers in excess of 10% were approximately 14% and 12% of our total revenue from one customer for the third quarter and first nine months of 2010. Although a small number of our other customers represent the majority of our revenue, their end customers include a large number of OEMs, and system integrators throughout the world who, in many cases, specify the graphics supplier. Our sales process involves achieving key design wins with leading PC, OEMs and major system builders and supporting the product design into high volume production with key contract equipment manufacturers, or CEMs, ODMs, add-in board and motherboard manufacturers. These design wins in turn influence the retail and system builder channel that is serviced by CEMs, ODMs, add-in board and motherboard manufacturers. Our distribution strategy is to work with a small number of leading independent CEMs, ODMs, add-in board and motherboard manufacturers, and distributors, each of which has relationships with a broad range of system builders and leading PC OEMs. If we were to lose sales to our PC OEMs, CEMs, ODMs, add-in board manufacturers and motherboard manufacturers and were unable to replace the lost sales with sales to different customers, if they were to significantly reduce the number of products they order from us, or if we were unable to collect accounts receivable from them, our revenue may not reach or exceed the expected level in any period, which could harm our financial condition and our results of operations.

Any difficulties in collecting accounts receivable, including from foreign customers, could harm our operating results and financial condition.

Our accounts receivable are highly concentrated and make us vulnerable to adverse changes in our customers' businesses, and to downturns in the industry and the worldwide economy. We recorded approximately 34% of our accounts receivable balance from three customers at October 31, 2010 and approximately 20% of our accounts receivable balance from two customers at January 31, 2010.

Difficulties in collecting accounts receivable could materially and adversely affect our financial condition and results of operations. These difficulties are heightened during periods when economic conditions worsen. We continue to work directly with more foreign customers and it may be difficult to collect accounts receivable from them. We maintain an allowance for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. This allowance consists of an amount identified for specific customers and an amount based on overall estimated exposure. If the financial condition of our customers were to deteriorate, resulting in an impairment in their ability to make payments, additional allowances may be required, we may be required to defer revenue recognition on sales to affected customers, and we may be required to pay higher credit insurance premiums, any of which could adversely affect our operating results. In the future, we may have to record additional reserves or write-offs and/or defer revenue on certain sales transactions which could negatively impact our financial results.

We obtain credit insurance over the purchasing credit extended to certain customers. As a result of the tightening of the credit markets, we may not be able to acquire credit insurance on the credit we extend to these customers or in amounts that we deem sufficient. While we have procedures to monitor and limit exposure to credit risk on our accounts receivable, there can be no assurance such procedures will effectively limit our credit risk or avoid losses, which could harm our financial condition or operating results.

We are subject to risks associated with international operations which may harm our business.

We conduct our business worldwide. Our semiconductor wafers are manufactured, assembled, tested and packaged by third-parties located outside of the United States and other Americas. We generated 81% and 85% of our revenue for the third quarter of fiscal years 2011 and 2010, respectively, and 83% and 84% of our revenue for the first nine months of fiscal years 2011 and 2010, respectively, from sales to customers outside the United States and other Americas. As of October 31, 2010, we have offices in 15 countries outside of the United States. The manufacture, assembly, test and packaging of our products outside of the United States, operation of offices outside of the United States, and sales to customers internationally subjects us to a number of risks, including:

- international economic and political conditions, such as political tensions between countries in which we do business;
  - unexpected changes in, or impositions of, legislative or regulatory requirements;
    - complying with a variety of foreign laws;
  - differing legal standards with respect to protection of intellectual property and employment practices;
    - cultural differences in the conduct of business;
    - inadequate local infrastructure that could result in business disruptions;
- exporting or importing issues related to export or import restrictions, tariffs, quotas and other trade barriers and restrictions;

- financial risks such as longer payment cycles, difficulty in collecting accounts receivable and fluctuations in currency exchange rates;
- imposition of additional taxes and penalties; and
- other factors beyond our control such as terrorism, civil unrest, war and diseases such as severe acute respiratory syndrome and the Avian flu.

If sales to any of our customers outside of the United States and other Americas are delayed or cancelled because of any of the above factors, our revenue may be negatively impacted.

Our international operations in Australia, China, Finland, France, Germany, Hong Kong, India, Japan, Korea, Russia, Singapore, Sweden, Switzerland, Taiwan, and the United Kingdom are subject to many of the above listed risks. Difficulties with our international operations, including finding appropriate staffing and office space, may divert management's attention and other resources any of which could negatively impact our operating results.

The economic conditions in our primary overseas markets, particularly in Asia, may negatively impact the demand for our products abroad. All of our international sales to date have been denominated in United States dollars. Accordingly, an increase in the value of the United States dollar relative to foreign currencies could make our products less competitive in international markets or require us to assume the risk of denominating certain sales in foreign currencies. We anticipate that these factors will impact our business to a greater degree as we further expand our international business activities.

Conditions outside the control of our independent subcontractors and manufacturers may impact their business operations and thereby adversely interrupt our manufacturing and sales processes.

The economic, market, social, and political situations in countries where certain independent subcontractors and manufacturers are located are unpredictable, can be volatile, and can have a significant impact on our business because we may be unable to obtain or distribute product in a timely manner. Market and political conditions, including currency fluctuation, terrorism, political strife, war, labor disruption, and other factors, including natural or man-made disasters, adverse changes in tax laws, tariff, import or export quotas, power and water shortages, or interruption in air transportation, in areas where our independent subcontractors and manufacturers are located could also have a severe negative impact on our operating capabilities. For example, because we rely heavily on TSMC to produce a significant portion of our silicon wafers, earthquakes, typhoons or other natural disasters in Taiwan and Asia could limit our wafer supply and thereby harm our business, financial condition, and operational results.

We are dependent on key employees and the loss of any of these employees could negatively impact our business.

Our future success and ability to compete is substantially dependent on our ability to identify, hire, train and retain highly qualified key personnel. The market for key employees in the technology industry can be competitive. None of our key employees is bound by an employment agreement, meaning our relationships with all of our key employees are at will. The loss of the services of any of our other key employees without an adequate replacement or our inability to hire new employees as needed could delay our product development efforts, harm our ability to sell our products or otherwise negatively impact our business.

In addition, we rely on stock-based awards as a means for recruiting, motivating and retaining highly skilled talent. If the value of such stock awards does not appreciate as measured by the performance of the price of our common stock or if our share-based compensation otherwise ceases to be viewed as a valuable benefit, our ability to attract, retain, and motivate employees could be weakened, which could harm our results of operations.

We may not be able to realize the potential financial or strategic benefits of business acquisitions or strategic investments, which could hurt our ability to grow our business, develop new products or sell our products.

We have acquired and invested in other businesses that offered products, services and technologies that we believe will help expand or enhance our existing products and business. We may enter into future acquisitions of, or investments in, businesses, in order to complement or expand our current businesses or enter into a new business market. Negotiations associated with an acquisition or strategic investment could divert management's attention and other company resources. Any of the following risks associated with past or future acquisitions or investments could impair our ability to grow our business, develop new products, our ability to sell our products, and ultimately could have a negative impact on our growth or our financial results:

- difficulty in combining the technology, products, operations or workforce of the acquired business with our business;
  - difficulty in operating in a new or multiple new locations;
- disruption of our ongoing businesses or the ongoing business of the company we invest in or acquire;
  - difficulty in realizing the potential financial or strategic benefits of the transaction;
  - difficulty in maintaining uniform standards, controls, procedures and policies;

- disruption of or delays in ongoing research and development efforts;
  - diversion of capital and other resources;
  - assumption of liabilities;
- diversion of resources and unanticipated expenses resulting from litigation arising from potential or actual business acquisitions or investments;
- difficulties in entering into new markets in which we have limited or no experience and where competitors in such markets have stronger positions; and
- impairment of relationships with employees and customers, or the loss of any of our key employees or customers or our target's key employees or customers, as a result of our acquisition or investment.

In addition, the consideration for any future acquisition could be paid in cash, shares of our common stock, the issuance of convertible debt securities or a combination of cash, convertible debt and common stock. If we make an investment in cash or use cash to pay for all or a portion of an acquisition, our cash reserves would be reduced which could negatively impact the growth of our business or our ability to develop new products. However, if we pay the consideration with shares of common stock, or convertible debentures, the holdings of our existing stockholders would be diluted. The significant decline in the trading price of our common stock would make the dilution to our stockholders more extreme and could negatively impact our ability to pay the consideration with shares of common stock or convertible debentures. We cannot forecast the number, timing or size of future strategic investments or acquisitions, or the effect that any such investments or acquisitions might have on our operations or financial results.

We are exposed to credit risk, fluctuations in the market values of our portfolio investments and in interest rates.

All of our cash equivalents and marketable securities are treated as "available-for-sale" securities. Investments in both fixed rate instruments and floating rate interest earning instruments carry a degree of interest rate risk. Fixed rate securities may have their market value adversely impacted due to a rise in interest rates, while floating rate securities may produce less income than expected if interest rates fall. Due in part to these factors, our future investment income may fall short of expectations due to changes in interest rates or if the decline in fair value of our publicly traded debt or equity investments is judged to be other-than-temporary. We may suffer losses in principal if we are forced to sell securities that decline in securities market value due to changes in interest rates. Future declines in the market values of our cash, cash equivalents and marketable securities could have a material adverse effect on our financial condition and operating results.

At October 31, 2010, we had approximately \$1.99 billion in cash, cash equivalents and marketable securities. Given the global nature of our business, we have invested both domestically and internationally. All of our investments are denominated in United States dollars. We invest in a variety of financial instruments, consisting principally of cash and cash equivalents, commercial paper, mortgage-backed securities issued by Government-sponsored enterprises, equity securities, money market funds and debt securities of corporations, municipalities and the United States government and its agencies. As of October 31, 2010, we did not have any investments in auction-rate preferred securities.

The financial turmoil that affected the banking system and financial markets and the increased possibility that financial institutions might consolidate or go out of business resulted in a tightening in the credit markets, a low level of liquidity in many financial markets, and extreme volatility in fixed income, credit, currency and equity markets. There could be a number of follow-on effects from the credit crisis on our business, including insolvency of key suppliers resulting in product delays; inability of customers, including channel partners, to obtain credit to finance purchases of our products and/or customer, including channel partner, insolvencies; and failure of financial institutions, which may negatively impact our treasury operations. Other income and expense could also vary materially from expectations depending on gains or losses realized on the sale or exchange of financial instruments;

impairment charges related to debt securities as well as equity and other investments; interest rates; and cash, cash equivalent and marketable securities balances. Volatility in the financial markets and economic uncertainty increases the risk that the actual amounts realized in the future on our financial instruments could differ significantly from the fair values currently assigned to them. As of October 31, 2010, our investments in government agencies and government sponsored enterprises represented approximately 60% of our total investment portfolio, while the financial sector accounted for approximately 32% of our total investment portfolio. Of the financial sector investments, over half are guaranteed by the U.S. government. Substantially all of our investments are with A/A2 or better rated securities. If the fair value of our investments in these sectors was to decline by 2%-5%, fair market values for these investments would decrease by approximately \$32-\$79 million.

## Risks Related to Regulatory, Legal, Our Common Stock and Other Matters

We are subject to litigation arising from alleged defects in our previous generation MCP and GPU products, which if determined adversely to us, could harm our business.

During fiscal years 2009 and 2010 and the second quarter of fiscal year 2011 we recorded net warranty charges against cost of revenue to cover anticipated customer warranty, repair, return, replacement and other costs arising from a weak die/package material set used in certain versions of our previous generation MCP and GPU products shipped after July 2008 and used in notebook configurations. During the second quarter of fiscal year 2011, we recorded an additional charge to cover the estimated remaining customer warranty, repair, return, replacement and other costs arising from a weak die/package material set in certain versions of our previous generation media and communications processor, or MCP, and graphics processing unit, or GPU, products used in notebook configurations. The net charge amounted to \$193.9 million, of which \$181.2 million was charged against cost of revenue. The extra remediation costs are primarily due to additional platforms from late failing systems that we had not previously considered to be at risk. Included in the charge are the estimated costs of implementing a settlement reached during the second quarter of fiscal year 2011 with the plaintiffs of a putative consumer class action lawsuit related to this same matter and the other estimated consumer class action settlement. As a result of this settlement, the other estimated settlement, and offsetting insurance reimbursements, we recorded a net charge of \$12.7 million to sales, general and administrative expense during the second quarter of fiscal year 2011. Together with the \$282.0 million net charge we had previously recorded for related estimated costs, this brings the total cumulative net charge to \$475.9 million, of which \$466.4 million has been charged against cost of revenue.

The previous generation MCP and GPU products that are impacted were included in a number of notebook products that were shipped and sold in significant quantities. Certain notebook configurations of these MCP and GPU products are failing in the field at higher than normal rates. Testing suggests a weak material set of die/package combination, system thermal management designs, and customer use patterns are contributing factors for these failures. We have worked with our customers to develop and have made available for download a software driver to cause the system fan to begin operation at the powering up of the system and reduce the thermal stress on these chips. We have also recommended to our customers that they consider changing the thermal management of the products in their notebook system designs. We intend to fully support our customers in their repair and replacement of these impacted products that fail, and their other efforts to mitigate the consequences of these failures.

We continue to not see any abnormal failure rates in any systems using NVIDIA products other than certain notebook configurations. However, we are continuing to test and otherwise investigate other products. There can be no assurance that we will not discover defects in other products.

In September, October and November 2008, several putative securities class action lawsuits were filed against us, asserting various claims related to the impacted MCP and GPU products. Such lawsuits could result in the diversion of management's time and attention away from business operations, which could harm our business. In addition, the costs of defense and any damages resulting from this litigation, a ruling against us, or a settlement of the litigation could adversely affect our cash flow and financial results.

We are a party to other litigation, including patent litigation, which, if determined adversely to us, could adversely affect our cash flow and financial results.

We are a party to other litigation as both a defendant and as a plaintiff. For example, we are engaged in litigation with Intel Corporation, Rambus Inc. and with various parties related to our acquisition of 3dfx in 2001. Please refer to Note



12 of the Notes to the Condensed Consolidated Financial Statements for further detail on these lawsuits. There can be no assurance that any litigation to which we are a party will be resolved in our favor. Any claim that is successfully decided against us may cause us to pay substantial damages, including punitive damages, and other related fees or prevent us from selling or importing certain of our products. Regardless of whether lawsuits are resolved in our favor or if we are the plaintiff or the defendant in the litigation, any lawsuits to which we are a party will likely be expensive and time consuming to defend or resolve. Such lawsuits could also harm our relationships with existing customers and result in the diversion of management's time and attention away from business operations, which could harm our business. Costs of defense and any damages resulting from litigation, a ruling against us, or a settlement of the litigation could adversely affect our cash flow and financial results.

Changes in United States tax legislation regarding our foreign earnings could materially impact our business.

Currently, a majority of our revenue is generated from customers located outside the United States, and a significant portion of our assets, including employees, are located outside the United States. United States income taxes and foreign withholding taxes have not been provided on undistributed earnings for certain non-United States subsidiaries, because such earnings are intended to be indefinitely reinvested in the operations of those subsidiaries. In 2009 and in the beginning of 2010, President Obama's administration released various international tax proposals, some of which, if enacted into law would substantially reduce our ability to defer United States taxes on such indefinitely reinvested non-United States earnings and/or eliminate certain tax deductions until foreign earnings are repatriated to the United States. If these or similar proposals are constituted into legislation in the current or future year(s), they could have a negative impact on our financial position and results of operations.

Our operating results may be adversely affected if we are subject to unexpected tax liabilities.

We are subject to taxation by a number of taxing authorities both in the United States and throughout the world. Tax rates vary among the jurisdictions in which we operate. Significant judgment is required in determining our provision for our income taxes as there are many transactions and calculations where the ultimate tax determination is uncertain. Although we believe our tax estimates are reasonable, any of the below could cause our effective tax rate to be materially different than that which is reflected in historical income tax provisions and accruals:

- the jurisdictions in which profits are determined to be earned and taxed;
- adjustments to estimated taxes upon finalization of various tax returns;
- changes in available tax credits;
- changes in share-based compensation expense;
- changes in tax laws, the interpretation of tax laws either in the United States or abroad or the issuance of new interpretative accounting guidance related to uncertain transactions and calculations where the tax treatment was previously uncertain; and
- the resolution of issues arising from tax audits with various tax authorities.

Should additional taxes be assessed as a result of any of the above, our operating results could be adversely affected. In addition, our future effective tax rate could be adversely affected by changes in the mix of earnings in countries with differing statutory tax rates, changes in tax laws or changes in the interpretation of tax laws.

Litigation to defend against alleged infringement of intellectual property rights or to enforce our intellectual property rights and the outcome of such litigation could result in substantial costs to us.

We expect that as the number of issued hardware and software patents increases and as competition intensifies, the volume of intellectual property infringement claims and lawsuits may increase. We may in the future become involved in lawsuits or other legal proceedings alleging patent infringement or other intellectual property rights violations by us or by our customers that we have agreed to indemnify them for certain claims of infringement.

An unfavorable ruling in any such intellectual property related litigation could include significant damages, invalidation of a patent or family of patents, indemnification of customers, payment of lost profits, or, when it has been sought, injunctive relief.

In addition, in the future, we may need to commence litigation or other legal proceedings in order to:

- assert claims of infringement of our intellectual property;
  - enforce our patents;
  - protect our trade secrets or know-how; or
- determine the enforceability, scope and validity of the propriety rights of others.

If we have to initiate litigation in order to protect our intellectual property, our operating expenses may increase which could negatively impact our operating results. Our failure to effectively protect our intellectual property could harm our business.

If infringement claims are made against us or our products are found to infringe a third parties' patent or intellectual property, we or one of our indemnified customers may have to seek a license to the third parties' patent or other intellectual property rights. However, we may not be able to obtain licenses at all or on terms acceptable to us particularly from our competitors. If we or one of our indemnified customers is unable to obtain a license from a third party for technology that we use or that is used in one of our products, we could be subject to substantial liabilities or

have to suspend or discontinue the manufacture and sale of one or more of our products. We may also have to make royalty or other payments, or cross license our technology. If these arrangements are not concluded on commercially reasonable terms, our business could be negatively impacted. Furthermore, the indemnification of a customer may increase our operating expenses which could negatively impact our operating results.

Our ability to compete will be harmed if we are unable to adequately protect our intellectual property.

We rely primarily on a combination of patents, trademarks, trade secrets, employee and third-party nondisclosure agreements, and licensing arrangements to protect our intellectual property in the United States and internationally. We have numerous patents issued, allowed and pending in the United States and in foreign jurisdictions. Our patents and pending patent applications primarily relate to our products and the technology used in connection with our products. We also rely on international treaties, organizations and foreign laws to protect our intellectual property. The laws of certain foreign countries in which our products are or may be manufactured or sold, including various countries in Asia, may not protect our products or intellectual property rights to the same extent as the laws of the United States. This makes the possibility of piracy of our technology and products more likely. We continuously assess whether and where to seek formal protection for particular innovations and technologies based on such factors as:

- the commercial significance of our operations and our competitors' operations in particular countries and regions;
  - the location in which our products are manufactured;
  - our strategic technology or product directions in different countries; and
- the degree to which intellectual property laws exist and are meaningfully enforced in different jurisdictions.

Our pending patent applications and any future applications may not be approved. In addition, any issued patents may not provide us with competitive advantages or may be challenged by third parties. The enforcement of patents by others may harm our ability to conduct our business. Others may independently develop substantially equivalent intellectual property or otherwise gain access to our trade secrets or intellectual property. Our failure to effectively protect our intellectual property could harm our business.

Government investigations and inquiries from regulatory agencies could lead to enforcement actions, fines or other penalties and could result in litigation against us.

In the past, we have been subject to government investigations and inquiries from regulatory agencies such as the Department of Justice and the SEC. We may be subject to government investigations and receive additional inquiries from regulatory agencies in the future, which may lead to enforcement actions, fines or other penalties.

In addition, litigation has often been brought against a company in connection with the announcement of a government investigation or inquiry from a regulatory agency. Such lawsuits could result in the diversion of management's time and attention away from business operations, which could harm our business. In addition, the costs of defense and any damages resulting from litigation, a ruling against us, or a settlement of the litigation could adversely affect our cash flow and financial results.

We are subject to the risks of owning real property.

During fiscal year 2009, we purchased real property in Santa Clara, California that includes approximately 25 acres of land and ten commercial buildings. We also own real property in China and India. We have limited experience in the ownership and management of real property and are subject to the risks of owning real property, including:

- the possibility of environmental contamination and the costs associated with mitigating any environmental problems;
- adverse changes in the value of these properties, due to interest rate changes, changes in the market in which the property is located, or other factors;
  - the risk of loss if we decide to sell and are not able to recover all capitalized costs;

- increased cash commitments for the possible construction of a campus;
- the possible need for structural improvements in order to comply with zoning, seismic and other legal or regulatory requirements;
  - increased operating expenses for the buildings or the property or both;
- possible disputes with third parties, such as neighboring owners or others, related to the buildings or the property or both; and
- the risk of financial loss in excess of amounts covered by insurance, or uninsured risks, such as the loss caused by damage to the buildings as a result of earthquakes, floods and or other natural disasters.

Expensing employee equity compensation adversely affects our operating results and could also adversely affect our competitive position.

Since inception, we have used equity through our equity incentive plans and our employee stock purchase program as a fundamental component of our compensation packages. We believe that these programs directly motivate our employees and, through the use of vesting, encourage our employees to remain with us.

We record compensation expense for stock options, restricted stock units and our employee stock purchase plan using the fair value of those awards in accordance with generally accepted accounting principles in United States of America, or U.S. GAAP. Stock-based compensation expense was \$25.2 million and \$23.0 million for the third quarter of fiscal years 2011 and 2010, respectively, and \$74.9 million and \$82.5 million for the first nine months of fiscal years 2011 and 2010, respectively, related to on-going vesting of equity awards, which negatively impacted our operating results. Additionally, in March 2009, we completed a cash tender offer to purchase certain employee stock options. A total of 28.5 million options were tendered under the offer for an aggregate cash purchase price of \$78.1 million, in exchange for the cancellation of the eligible options. As a result of the tender offer, we incurred a charge of \$140.2 million consisting of the remaining unamortized stock based compensation expense associated with the unvested portion of the options tendered in the offer, stock-based compensation expense resulting from amounts paid in excess of the fair value of the underlying options, plus associated payroll taxes and professional fees. We believe that expensing employee equity compensation will continue to negatively impact our operating results.

To the extent that expensing employee equity compensation makes it more expensive to grant stock options and restricted stock units or to continue to have an employee stock purchase program, we may decide to incur increased cash compensation costs. In addition, actions that we may take to reduce stock-based compensation expense that may be more severe than any actions our competitors may implement and may make it difficult to attract retain and motivate employees, which could adversely affect our competitive position as well as our business and operating results.

We may be required to record a charge to earnings if our goodwill or amortizable intangible assets become impaired, which could negatively impact our operating results.

Under U.S. GAAP, we review our amortizable intangible assets and goodwill for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. Goodwill is tested for impairment at least annually. The carrying value of our goodwill or amortizable assets from acquisitions may not be recoverable due to factors such as a decline in stock price and market capitalization, reduced estimates of future cash flows and slower growth rates in our industry or in any of our business units. Estimates of future cash flows are based on an updated long-term financial outlook of our operations. However, actual performance in the near-term or long-term could be materially different from these forecasts, which could impact future estimates. For example, if one of our business units does not meet its near-term and longer-term forecasts, the goodwill assigned to the business unit could be impaired. We may be required to record a charge to earnings in our financial statements during a period in which an impairment of our goodwill or amortizable intangible assets is determined to exist, which may negatively impact our results of operations.

Our stock price continues to be volatile and investors may suffer losses.

Our stock has at times experienced substantial price volatility as a result of variations between our actual and anticipated financial results, announcements by us and our competitors, or uncertainty about current global economic conditions. The stock market as a whole also has experienced extreme price and volume fluctuations that have

affected the market price of many technology companies in ways that may have been unrelated to these companies' operating performance.

In the past, securities class action litigation has often been brought against a company following periods of volatility in the market price of its securities. For example, following our announcement in July 2008 that we would take a charge against cost of revenue to cover anticipated costs and expenses arising from a weak die/package material set in certain versions of our previous generation MCP and GPU products and that we were revising financial guidance for our second fiscal quarter of 2009, the trading price of our common stock declined. In September, October and November 2008, several putative class action lawsuits were filed against us relating to this announcement. Please refer to Note 12 of the Notes to Condensed Consolidated Financial Statements for further information regarding these lawsuits. Due to changes in the potential volatility of our stock price, we may be the target of securities litigation in the future. Such lawsuits could result in the diversion of management's time and attention away from business operations, which could harm our business. In addition, the costs of defense and any damages resulting from litigation, a ruling against us, or a settlement of the litigation could adversely affect our cash flow and financial results.

Our failure to comply with any applicable environmental regulations could result in a range of consequences, including fines, suspension of production, excess inventory, sales limitations, and criminal and civil liabilities.

We are subject to various state, federal and international laws and regulations governing the environment, including restricting the presence of certain substances in electronic products and making producers of those products financially responsible for the collection, treatment, recycling and disposal of those products. Although our management systems are designed to maintain compliance, we cannot assure you that we have been or will be at all times in complete compliance with such laws and regulations. If we violate or fail to comply with any of them, a range of consequences could result, including fines, import/export restrictions, sales limitations, criminal and civil liabilities or other sanctions. We could also be held liable for any and all consequences arising out of exposure to hazardous materials used, stored, released, disposed of by us or located at, under or emanating from our facilities or other environmental or natural resource damage.

Environmental laws are complex, change frequently and have tended to become more stringent over time. For example, the European Union and China are two among a growing number of jurisdictions that have enacted in recent years restrictions on the use of lead, among other chemicals, in electronic products. These regulations affect semiconductor packaging. There is a risk that the cost, quality and manufacturing yields of lead-free products may be less favorable compared to lead-based products or that the transition to lead-free products may produce sudden changes in demand, which may result in excess inventory.

There is also a movement to improve the transparency and accountability concerning the supply of minerals coming from the conflict zones of the Democratic Republic of Congo. New U.S. legislation includes disclosure requirements regarding the use of “conflict” minerals mined from the Democratic Republic of Congo and adjoining countries and procedures regarding a manufacturer’s efforts to prevent the sourcing of such “conflict” minerals. The implementation of these requirements could affect the sourcing and availability of minerals used in the manufacture of semiconductor devices. As a result, there may only be a limited pool of suppliers who provide conflict free metals, and we cannot assure you that we will be able to obtain products in sufficient quantities or at competitive prices. Also, since our supply chain is complex, we may face reputational challenges with our customers and other stockholders if we are unable to sufficiently verify the origins for all metals used in our products.

Future environmental legal requirements may become more stringent or costly and our compliance costs and potential liabilities arising from past and future releases of, or exposure to, hazardous substances may harm our business and our reputation.

While we believe that we have adequate internal control over financial reporting, if we or our independent registered public accounting firm determines that we do not, our reputation may be adversely affected and our stock price may decline.

Section 404 of the Sarbanes-Oxley Act of 2002 requires our management to report on, and our independent registered public accounting firm to audit, the effectiveness of our internal control structure and procedures for financial reporting. We have an ongoing program to perform the system and process evaluation and testing necessary to comply with these requirements. However, the manner in which companies and their independent public accounting firms apply these requirements and test companies’ internal controls remains subject to some judgment. To date, we have incurred, and we expect to continue to incur, increased expense and to devote additional management resources to Section 404 compliance. Despite our efforts, if we identify a material weakness in our internal controls, there can be no assurance that we will be able to remediate that material weakness in a timely manner, or that we will be able to maintain all of the controls necessary to determine that our internal control over financial reporting is effective. In the



event that our chief executive officer, chief financial officer or our independent registered public accounting firm determine that our internal control over financial reporting is not effective as defined under Section 404, investor perceptions of us may be adversely affected and could cause a decline in the market price of our stock.

Changes in financial accounting standards or interpretations of existing standards could affect our reported results of operations.

We prepare our consolidated financial statements in conformity with U.S.GAAP. These principles are constantly subject to review and interpretation by the SEC and various bodies formed to interpret and create appropriate accounting principles. A change in these principles can have a significant effect on our reported results and may even retroactively affect previously reported transactions. Additionally, changes in existing accounting rules or practices, including the possible conversion to unified international accounting standards, could have a significant adverse effect on our results of operations or the manner in which we conduct our business.

Provisions in our certificate of incorporation, our bylaws and our agreement with Microsoft could delay or prevent a change in control.

Our certificate of incorporation and bylaws contain provisions that could make it more difficult for a third party to acquire a majority of our outstanding voting stock. These provisions include the following:

- the ability of our Board to create and issue preferred stock without prior stockholder approval;
  - the prohibition of stockholder action by written consent;
  - a classified Board; and
- advance notice requirements for director nominations and stockholder proposals.

On March 5, 2000, we entered into an agreement with Microsoft in which we agreed to develop and sell graphics chips and to license certain technology to Microsoft and its licensees for use in the Xbox. Under the agreement, if an individual or corporation makes an offer to purchase shares equal to or greater than 30% of the outstanding shares of our common stock, Microsoft may have first and last rights of refusal to purchase the stock. The Microsoft provision and the other factors listed above could also delay or prevent a change in control of NVIDIA.

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

### Issuer Purchases of Equity Securities

During fiscal year 2005, we announced that our Board had authorized a stock repurchase program to repurchase shares of our common stock, subject to certain specifications, up to an aggregate maximum amount of \$300 million. During fiscal year 2007, the Board further approved an increase of \$400 million to the original stock repurchase program. In fiscal year 2008, we announced a stock repurchase program under which we may purchase up to an additional \$1.0 billion of our common stock over a three year period through May 2010. On August 12, 2008, we announced that our Board further authorized an additional increase of \$1.0 billion to the stock repurchase program. As a result of these increases, we have an ongoing authorization from the Board, subject to certain specifications, to repurchase shares of our common stock up to an aggregate maximum amount of \$2.7 billion through May 2010. On March 16, 2010, our Board further authorized an extension of the stock repurchase program from May 2010 to May 2013.

The repurchases will be made from time to time in the open market, in privately negotiated transactions, or in structured stock repurchase programs, and may be made in one or more larger repurchases, in compliance with Rule 10b-18 under the Securities Exchange Act of 1934, as amended, subject to market conditions, applicable legal requirements, and other factors. The program does not obligate NVIDIA to acquire any particular amount of common stock and the program may be suspended at any time at our discretion. As part of our share repurchase program, we have entered into, and we may continue to enter into, structured share repurchase transactions with financial institutions. These agreements generally require that we make an up-front payment in exchange for the right to receive a fixed number of shares of our common stock upon execution of the agreement, and a potential incremental number of shares of our common stock, within a pre-determined range, at the end of the term of the agreement

During the three and nine months ended October 31, 2010, we did not enter into any structured share repurchase transactions or otherwise purchase any shares of our common stock. Through the first nine months of fiscal year 2011, we have repurchased an aggregate of 90.9 million shares under our stock repurchase program for a total cost of \$1.46 billion. As of October 31, 2010, we are authorized, subject to certain specifications, to repurchase shares of our common stock up to \$1.24 billion through May 2013.

Additionally, during the third quarter of fiscal year 2011, we granted approximately 2.9 million stock options and 3.9 million restricted stock units under the 2007 Equity Incentive Plan. In March 2009, we completed a cash tender offer for 28.5 million options held by our employees. Please refer to Note 2 and Note 3 of the Notes to Condensed Consolidated Financial Statements for further information regarding stock-based compensation related to our March 2009 stock option purchase and related to equity awards granted under our equity incentive programs.

## ITEM 6. EXHIBITS

## EXHIBIT INDEX

Exhibit No.	Exhibit Description	Incorporated by Reference		Exhibit	Filing Date
		Schedule/Form	File Number		
10.15*+	2007 Equity Incentive Plan				
10.20+	2007 Equity Incentive Plan- Non Statutory Stock Option	8-K	0-23985	10.20	09/13/2010
10.21+	2007 Equity Incentive Plan- Incentive Stock Option	8-K	0-23985	10.21	09/13/2010
10.22*+	2007 Equity Incentive Plan-Restricted Stock Unit Grant Notice and Restricted stock Unit Purchase Agreement				
10.31*+	Fiscal Year 2011 Variable Compensation Plan (as amended September 7, 2010)				
10.32*	Memory Controller Patent License Agreement Between Rambus Inc. and NVIDIA Corporation, dated August 12, 2010				
10.33*	Second Amendment to Lease, dated August 18, 2010 between NVIDIA Corporation and Sobrato Interests III for Building A				
10.34*	Third Amendment to Lease, dated August 18, 2010, between NVIDIA Corporation and Sobrato Interests III for Building B				
10.35*	Third Amendment to Lease, dated August 18, 2010, between NVIDIA Corporation and Sobrato				

Interests III for Building C

- 10.36\* Second Amendment to Lease, dated August 18, 2010, between NVIDIA Corporation and Sobrato Interests III for Building D
- 31.1\* Certification of Chief Executive Officer as required by Rule 13a-14(a) of the Securities Exchange Act of 1934
- 31.2\* Certification of Chief Financial Officer as required by Rule 13a-14(a) of the Securities Exchange Act of 1934
- 32.1#\* Certification of Chief Executive Officer as required by Rule 13a-14(b) of the Securities Exchange Act of 1934
- 32.2#\* Certification of Chief Financial Officer as required by Rule 13a-14(b) of the Securities Exchange Act of 1934
- 101.INS\* XBRL Instance Document
- 101.SCH\*± XBRL Taxonomy Extension Schema Document
- 101.CAL\*± XBRL Taxonomy Extension Calculation Linkbase Document
- 101.LAB\*± XBRL Taxonomy Extension Labels Linkbase Document
- 101.PRE\*± XBRL Taxonomy Extension Presentation Linkbase Document
- 101.DEF\*± XBRL Taxonomy Extension Definition Linkbase Document

\* Filed Herewith

+ Management contract or compensatory plan or arrangement.

# In accordance with Item 601(b)(32)(ii) of Regulation S-K and SEC Release Nos. 33-8238 and 34-47986, Final Rule: Management's Reports on Internal Control Over Financial Reporting and Certification of Disclosure in Exchange Act Periodic Reports, the certifications furnished in Exhibits 32.1 and 32.2 hereto are deemed to accompany this Quarterly Report on Form 10-Q and will not be deemed "filed" for purpose of Section 18 of the Exchange Act. Such certifications will not be deemed to be incorporated by reference into any filing under the Securities Act or the Exchange Act, except to the extent that the registrant specifically incorporates it by reference.

± Pursuant to applicable securities laws and regulations, the Company is deemed to have complied with the reporting obligation relating to the submission of interactive data files in such exhibits and is not subject to liability under any anti-fraud provisions of the federal securities laws as long as the Company has made a good faith attempt to comply with the submission requirements and promptly amends the interactive data files after becoming aware that the interactive data files fails to comply with the submission requirements. These interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act, are deemed not filed for purposes of section 18 of the Exchange Act and otherwise are not subject to liability under these sections.

Copies of above exhibits not contained herein are available to any stockholder upon written request to:  
Investor Relations: NVIDIA Corporation, 2701 San Tomas Expressway, Santa Clara, CA 95050.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: December 7, 2010

NVIDIA Corporation

By:

/s/ DAVID L. WHITE

David L. White

(Duly Authorized Officer and Principal Financial and  
Accounting Officer)

## EXHIBIT INDEX

Exhibit No.	Exhibit Description	Incorporated by Reference		Exhibit	Filing Date
		Schedule/Form	File Number		
10.15*+	2007 Equity Incentive Plan				
10.20+	2007 Equity Incentive Plan- Non Statutory Stock Option	8-K	0-23985	10.20	09/13/2010
10.21+	2007 Equity Incentive Plan- Incentive Stock Option	8-K	0-23985	10.21	09/13/2010
10.22*+	2007 Equity Incentive Plan-Restricted Stock Unit Grant Notice and Restricted stock Unit Purchase Agreement				
10.31*+	Fiscal Year 2011 Variable Compensation Plan (as amended September 7, 2010)				
10.32*	Memory Controller Patent License Agreement Between Rambus Inc. and NVIDIA Corporation, dated August 12, 2010				
10.33*	Second Amendment to Lease, dated August 18, 2010 between NVIDIA Corporation and Sobrato Interests III for Building A				
10.34*	Third Amendment to Lease, dated August 18, 2010, between NVIDIA Corporation and Sobrato Interests III for Building B				
10.35*	Third Amendment to Lease , dated August 18, 2010, between NVIDIA Corporation and Sobrato Interests III for Building C				
10.36*					



Second Amendment to  
Lease, dated August 18,  
2010, between NVIDIA  
Corporation and Sobrato  
Interests III for Building D

- 31.1\* Certification of Chief  
Executive Officer as  
required by Rule 13a-14(a)  
of the Securities Exchange  
Act of 1934
- 31.2\* Certification of Chief  
Financial Officer as  
required by Rule 13a-14(a)  
of the Securities Exchange  
Act of 1934
- 32.1#\* Certification of Chief  
Executive Officer as  
required by Rule 13a-14(b)  
of the Securities Exchange  
Act of 1934
- 32.2#\* Certification of Chief  
Financial Officer as  
required by Rule 13a-14(b)  
of the Securities Exchange  
Act of 1934
- 101.INS\* XBRL Instance Document
- 101.SCH\*± XBRL Taxonomy Extension  
Schema Document
- 101.CAL\*± XBRL Taxonomy Extension  
Calculation Linkbase  
Document
- 101.LAB\*± XBRL Taxonomy Extension  
Labels Linkbase Document
- 101.PRE\*± XBRL Taxonomy Extension  
Presentation Linkbase  
Document
- 101.DEF\*± XBRL Taxonomy  
Extension Definition  
Linkbase Document

\* Filed Herewith

+ Management contract or compensatory plan or arrangement.

# In accordance with Item 601(b)(32)(ii) of Regulation S-K and SEC Release Nos. 33-8238 and 34-47986, Final Rule: Management's Reports on Internal Control Over Financial Reporting and Certification of Disclosure in Exchange Act Periodic Reports, the certifications furnished in Exhibits 32.1 and 32.2 hereto are deemed to accompany this Quarterly Report on Form 10-Q and will not be deemed "filed" for purpose of Section 18 of the Exchange Act. Such certifications will not be deemed to be incorporated by reference into any filing under the Securities Act or the Exchange Act, except to the extent that the registrant specifically incorporates it by reference.

± Pursuant to applicable securities laws and regulations, the Company is deemed to have complied with the reporting obligation relating to the submission of interactive data files in such exhibits and is not subject to liability under any anti-fraud provisions of the federal securities laws as long as the Company has made a good faith attempt to comply with the submission requirements and promptly amends the interactive data files after becoming aware that the interactive data files fails to comply with the submission requirements. These interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act, are deemed not filed for purposes of section 18 of the Exchange Act and otherwise are not subject to liability under these sections.

Copies of above exhibits not contained herein are available to any stockholder upon written request to:  
Investor Relations: NVIDIA Corporation, 2701 San Tomas Expressway, Santa Clara, CA 95050.

