NVIDIA CORP
Form 10-Q
May 23, 2012

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

FORM 10-Q

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

For the quarterly period ended April 29, 2012

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	94-3177549
(State or Other Jurisdiction of Incorporation or Organization)	(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 Q No o

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 Q No o

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.

Large accelerated filer x

Accelerated filer o

Non-accelerated filer o (Do not check if a smaller reporting company)

Smaller reporting company o

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

The number of shares of common stock, $0.001 par value, outstanding as of May 18, 2012, was 618,804,109

NVIDIA CORPORATION
FORM 10-Q
FOR THE QUARTER ENDED April 29, 2012

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)

NVIDIA CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(UNAUDITED)
(In thousands, except per share data)

	Three Months Ended	
	April 29, 2012	May 1, 2011
Revenue	$924,877	$962,039
Cost of revenue	461,513	477,536
Gross profit	463,364	484,503
Operating expenses		
Research and development	283,902	231,524
Sales, general and administrative	106,636	98,117
Total operating expenses	390,538	329,641
Income from operations	72,826	154,862
Interest income	5,198	5,313
Other expense	(929)	(3,690)
Income before income tax expense	77,095	156,485
Income tax expense	16,658	21,266
Net income	$60,437	$135,219
Basic net income per share	$0.10	$0.23
Shares used in basic per share computation	615,780	594,802
Diluted net income per share	$0.10	$0.22
Shares used in diluted per share computation	623,786	613,474

See accompanying Notes to Condensed Consolidated Financial Statements.

NVIDIA CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(UNAUDITED)
(In thousands)

	Three Months Ended	
	April 29, 2012	May 1, 2011
Net income	$60,437	$135,219
Net change in unrealized gains (losses) on available-for-sale securities	(102)	1,209
Less: reclassification adjustments for net realized gains on available-for-sale securities included in net income	(132)	(81)
Income tax (expense) benefit related to items of other comprehensive income	67	(279)
Other comprehensive income (loss), net of tax	$(167)	$849
Total comprehensive income	$60,270	$136,068

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	April 29, 2012	January 29, 2012
ASSETS		
Current assets:		
Cash and cash equivalents	$369,135	$667,876
Marketable securities	2,761,677	2,461,700
Accounts receivable, net	411,155	336,143
Inventories	342,707	340,297
Prepaid expenses and other	97,511	49,411
Deferred income taxes	49,931	49,931
Total current assets	4,032,116	3,905,358
Property and equipment, net	553,541	560,072
Goodwill	641,030	641,030
Intangible assets, net	363,395	326,136
Other assets	118,085	120,332
Total assets	$5,708,167	$5,552,928
LIABILITIES AND STOCKHOLDERS’ EQUITY		
Current liabilities:		
Accounts payable	$395,578	$335,072
Accrued liabilities and other	551,826	594,886
Total current liabilities	947,404	929,958
Other long-term liabilities	452,505	455,807
Capital lease obligations, long-term	20,830	21,439
Commitments and contingencies - see Note 12	—	—
Stockholders’ equity:		
Preferred stock	—	—
Common stock	707	700
Additional paid-in capital	2,994,507	2,900,896
Treasury stock, at cost	(1,509,088)	(1,496,904)
Accumulated other comprehensive income	10,447	10,614
Retained earnings	2,790,855	2,730,418
Total stockholders' equity	4,287,428	4,145,724
Total liabilities and stockholders' equity	$5,708,167	$5,552,928

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	Three Months Ended	
	April 29, 2012	May 1, 2011
Cash flows from operating activities:		
Net income	$60,437	$135,219
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	54,491	47,764
Stock-based compensation expense	35,569	31,739
Other	5,451	2,195
Deferred income taxes	3,630	8,415
Excess tax benefits from stock-based compensation	(8,675)	(13,644)
Changes in operating assets and liabilities, net of effect of acquisition:		
Accounts receivable	(75,369)	5,820
Inventories	(2,191)	(35,183)
Prepaid expenses and other current assets	(48,100)	(3,964)
Other assets	(1,882)	3,226
Accounts payable	33,516	53,740
Accrued liabilities and other long-term liabilities	(66,085)	(63,127)
Net cash provided by (used in) operating activities	(9,208)	172,200
Cash flows from investing activities:		
Purchases of marketable securities	(814,222)	(427,874)
Proceeds from sales and maturities of marketable securities	507,875	206,946
Purchases of property and equipment and intangible assets	(28,923)	(31,195)
Other	216	(383)
Net cash used in investing activities	(335,054)	(252,506)
Cash flows from financing activities:		
Proceeds from issuance of common stock under employee stock plans	37,361	85,286
Payments under capital lease obligations	(515)	(352)
Excess tax benefits from stock-based compensation	8,675	13,644
Net cash provided by financing activities	45,521	98,578
Change in cash and cash equivalents	(298,741)	18,272
Cash and cash equivalents at beginning of period	667,876	665,361
Cash and cash equivalents at end of period	$369,135	$683,633
Supplemental disclosures of cash flow information:		
Cash paid for income taxes, net	$2,010	$1,404
Cash paid for interest on capital lease obligations	$744	$761
Other non-cash activities:		
Assets acquired by assuming related liabilities	$55,256	$6,416
Change in unrealized gains (losses) from marketable securities	$(167)	$850

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, or U.S. GAAP, 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 29, 2012.

Fiscal Year

We operate on a 52 or 53-week year, ending on the last Sunday in January. Fiscal year 2013 and fiscal year 2012 are both 52-week years. The first quarters of fiscal years 2013 and 2012 are both 13-week quarters.

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 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, as the level of returns cannot be reasonably estimated. 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, depending on the nature of the program. MDFs represent monies paid to retailers, system builders, original equipment manufacturers, 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 most 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.

For license arrangements that do not require significant customization but where we are obligated to provide further deliverables over the term of the license agreement, we record revenue over the of life of the license term, with consideration received in advance of the performance period classified as deferred revenue.

Royalty revenue is recognized related to the distribution or sale of products that use our technologies under license agreements with third parties. We recognize royalty revenue upon receipt of a confirmation of earned royalties and when collectability is reasonably assured from the applicable licensee.

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. If actual market conditions are less favorable than those projected by management, or if our current inventory or 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. If actual market conditions are more favorable than expected and we sell products that we have previously written down, our reported gross margin would be favorably impacted.

Adoption of New and Recently Issued Accounting Pronouncements

In the first quarter of fiscal year 2013, we adopted an amended standard that increases the prominence of items reported in other comprehensive income. This amended standard eliminates the option to present components of other comprehensive income as part of the statement of changes in stockholders' equity and requires that all changes in stockholders' equity-except investments by, and distributions to, owners-be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The adoption of this amended standard impacted the presentation of other comprehensive income, as we have elected to present two separate but consecutive statements, but did not have an impact on our financial position or results of operations.

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

Note 2 - 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 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.

Our consolidated statements of operations include stock-based compensation expense, net of amounts capitalized as inventory, as follows:

	Three Months Ended	
	April 29, 2012	May 1, 2011
	(In thousands)	
Cost of revenue	$2,526	$2,477
Research and development	$21,207	$18,589
Sales, general and administrative	$11,836	$10,673
Total	$35,569	$31,739

During the three months ended April 29, 2012, we granted approximately 2.9 million options with an estimated total grant-date fair value of $16.2 million and a weighted average grant-date fair value of $5.52 per option. During the three months ended April 29, 2012, we granted approximately 3.3 million RSUs, with an estimated total grant-date fair value of $48.2 million and a weighted average grant-date fair value of $14.58 per RSU.

During the three months ended May 1, 2011, we granted approximately 2.9 million stock options, with an estimated total grant-date fair value of $26.6 million and a weighted average grant-date fair value of $9.24 per option. During the three months ended May 1, 2011, we granted approximately 3.3 million RSUs, with an estimated total grant-date fair value of $59.6 million and a weighted average grant-date fair value of $18.18 per RSU.

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 $11.5 million and $15.4 million for the three months ended April 29, 2012 and May 1, 2011. As of April 29, 2012 and May 1, 2011, the aggregate amount of unearned stock-based compensation expense related to our equity awards was $212.9 million and $194.3 million, respectively, adjusted for estimated forfeitures. As of April 29, 2012 and May 1, 2011, we expect to recognize the unearned stock-based compensation expense related to stock options over an estimated weighted average amortization period of 2.7 years and 2.2 years, respectively. As of April 29, 2012 and May 1, 2011, we expect to recognize the unearned stock-based compensation expense related to RSUs over an estimated weighted average amortization period of 2.8 years and 2.7 years, respectively.

Valuation Assumptions

We utilize a binomial model for calculating the estimated fair value of new stock-based compensation awards granted under our equity incentive plans. We have determined that the use of implied volatility is expected to be reflective of market conditions and, therefore, can be expected to be 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 annually 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 equity incentive plans and shares issued under our employee stock purchase plan have been estimated at the date of grant with the following assumptions:

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

	Three Months Ended	
	April 29, 2012	May 1, 2011
Stock Options	(Using a binomial model)	
Expected life (in years)	4.2 -4.7	4.4-5.4
Risk free interest rate	2.0%-2.3%	3.2%-3.8%
Volatility	43%-46%	50%-61%
Dividend yield	—	—

	Three Months Ended	
	April 29, 2012	May 1, 2011
Employee Stock Purchase Plan	(Using a Black-Scholes model)	
Expected life (in years)	0.5-2.0	0.5-2.0
Risk free interest rate	0.1%-0.3%	0.2%-0.7%
Volatility	44 %	57 %
Dividend yield	—	—

Equity Award Activity

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

	Options Outstanding	Weighted Average Exercise Price
Stock Options	(In thousands)	(Per share)
Balances, January 29, 2012	33,329	$14.44
Granted	2,937	$14.54
Exercised	(2,015)	$9.72
Cancelled	(1,521)	$17.32
Balances, April 29, 2012	32,730	$14.61

	RSUs Outstanding	Weighted Average Grant-Date Fair Value
Restricted Stock Units	(In thousands)	(Per share)
Balances, January 29, 2012	13,638	$15.10
Granted	3,306	$14.58
Vested	(2,470)	$14.14
Cancelled	(168)	$15.49
Balances, April 29, 2012	14,306	$15.14

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

Note 3 – Net Income Per Share

The following is a reconciliation of the numerator and denominator of the basic and diluted net income per share computations for the periods presented:

	Three Months Ended	
	April 29, 2012	May 1, 2011
	(In thousands, except per share data)	
Numerator:		
Net income	$60,437	$135,219
Denominator:		
Denominator for basic net income per share, weighted average shares	615,780	594,802
Effect of dilutive securities:		
Equity awards outstanding	8,006	18,672
Denominator for diluted net income per share, weighted average shares	623,786	613,474
Net income per share:		
Basic net income per share	$0.10	$0.23
Diluted net income per share	$0.10	$0.22
Potentially dilutive securities excluded from income per diluted share because their effect would have been anti-dilutive	23,430	10,401

Note 4 – Income Taxes

We recognized income tax expense of $16.7 million and $21.3 million for the three months ended April 29, 2012 and May 1, 2011, respectively. Income tax expense as a percentage of income before taxes, or our effective tax rate, was 21.6% and 13.6% for the three months ended April 29, 2012 and May 1, 2011, respectively. The increase in our effective tax rate of 21.6% from 13.6% was primarily related to the expiration of the U.S. federal research tax credit in December 31, 2011, which provided no tax benefit for the three months ended April 29, 2012.
Our effective tax rate on income before tax for the three months ended April 29, 2012 of 21.6% was lower than the United States federal statutory rate of 35.0% due primarily to income earned in jurisdictions where the tax rate is lower than the United States federal statutory tax rate.
Our effective tax rate on income before tax for the three months ended May 1, 2011 of 13.6% was lower than the United States federal statutory rate of 35.0% due primarily to income earned in jurisdictions where the tax rate is lower than the United States federal statutory tax and the benefit of the U.S. federal research tax credit. Further, our annual projected effective tax rate of 16.7% as of the three months ended May 1, 2011 differs from our effective tax rate of 13.6% for the first three months fiscal year 2012 due to favorable discrete events that occurred in the first three months of fiscal year 2012 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.
As of April 29, 2012, we recorded an increase of unrecognized tax benefits of approximately $49.6 million, which is primarily related to an income tax position with respect to an acquired tax attribute. The $49.6 million of unrecognized tax benefits recorded in the three months ended April 29, 2012 consists of $48.5 million recorded in non-current income tax payable and $1.1 million reflected as a reduction to the related deferred tax assets.
Additionally, we recorded a decrease in the uncertain tax benefits related to the expiration of statutes of limitations in

certain non-U.S. jurisdictions in the three months ended April 29, 2012 of approximately $3.8 million. There have been no other significant changes to our unrecognized tax benefits, any related interest or penalties from our fiscal year ended January 29, 2012. For the three months ended April 29, 2012, there have been no material changes to our tax years that remain subject to examination by major tax jurisdictions.

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

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

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 April 29, 2012, 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 5 - 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 April 29, 2012. Based on our quarterly impairment review and having considered the guidance in the relevant accounting literature, we concluded that our investments were appropriately valued and that no other than temporary impairment charges were necessary on our portfolio of available for sale investments as of April 29, 2012. The following is a summary of cash equivalents and marketable securities at April 29, 2012 and January 29, 2012:

	April 29, 2012			
	Amortized Cost	Unrealized Gain	Unrealized Loss	Estimated Fair Value
	(In thousands)			
Debt securities of United States government agencies	$746,614	$1,501	$(148)	$747,967
Corporate debt securities	1,368,669	3,017	(345)	1,371,341
Mortgage backed securities issued by United States government-sponsored enterprises	170,388	5,616	(112)	175,892
Money market funds	37,598	—	—	37,598
Debt securities issued by United States Treasury	546,223	1,764	(15)	547,972
Total	$2,869,492	$11,898	$(620)	$2,880,770
Classified as:				
Cash equivalents				$119,093
Marketable securities				2,761,677
Total				$2,880,770

	January 29, 2012			
	Amortized Cost	Unrealized Gain	Unrealized Loss	Estimated Fair Value
	(In thousands)			
Debt securities of United States government agencies	$769,300	$1,605	$(151)	$770,754
Corporate debt securities	1,114,439	3,268	(260)	1,117,447
Mortgage backed securities issued by United States government-sponsored enterprises	156,668	4,964	(73)	161,559
Money market funds	290,732	—	—	290,732
Debt securities issued by United States Treasury	533,616	2,161	(3)	535,774
Total	$2,864,755	$11,998	$(487)	$2,876,266

Classified as:	
Cash equivalents	$414,566
Marketable securities	2,461,700
Total	$2,876,266

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 April 29, 2012 and January 29, 2012 and are shown below by contractual maturity.

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

	April 29, 2012		January 29, 2012	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
	(In thousands)			
Less than one year	$1,331,340	$1,333,644	$1,705,916	$1,708,154
Due in 1 - 5 years	1,380,573	1,385,115	1,047,956	1,053,265
Mortgage-backed securities issued by government-sponsored enterprises not due at a single maturity date	157,579	162,011	110,883	114,847
Total	$2,869,492	$2,880,770	$2,864,755	$2,876,266

Net realized gains for the three months ended April 29, 2012 and May 1, 2011 were not significant.

Note 6 – 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 three months ended April 29, 2012.

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

		Fair value measurement at reporting date using	
	April 29, 2012	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
	(In thousands)		
Debt securities issued by United States government agencies (1)	$747,967	$—	$747,967
Debt securities issued by United States Treasury (2)	547,972	—	547,972
Corporate debt securities (3)	1,371,341	—	1,371,341
Mortgage-backed securities issued by government-sponsored entities (4)	175,892	—	175,892
Money market funds (5)	37,598	37,598	—
Total cash equivalents and marketable securities	$2,880,770	$37,598	$2,843,172

(1) Included in Marketable Securities on the Condensed Consolidated Balance Sheet.
(2)

Includes \$4.0 million in Cash Equivalents and \$544.0 million in Marketable Securities on the Condensed Consolidated Balance Sheet.

(3) Includes \$77.5 million in Cash Equivalents and \$1,293.8 million in Marketable Securities on the Condensed Consolidated Balance Sheet.

(4) Included in Marketable Securities on the Condensed Consolidated Balance Sheet.

(5) Included in Cash Equivalents on the Condensed Consolidated Balance Sheet.

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

Note 7 - 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.

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	Straight-Line Amortization Period
	(In thousands)	(In years)
Property and equipment	$2,433	1-2
Trademarks	11,310	5
Goodwill	85,418	—
Total	$99,161	

Note 8- Business Combinations

On June 10, 2011, we completed the acquisition of Icera, Inc. by acquiring all issued and outstanding preferred and common shares in exchange for cash. Icera develops baseband processors for 3G and 4G cellular phones and tablets. In addition to leveraging on the existing Icera business, the objective of the acquisition is to accelerate and enhance the combination of our application processor with Icera's baseband processor for use in mobile devices such as smartphones and tablets.

Total consideration to acquire Icera was $352.2 million in cash. All existing Icera equity based incentive plans were terminated upon the completion of the acquisition. In connection with the acquisition of Icera, we established a retention program in the aggregate amount of approximately $68.0 million to be paid out to Icera employees over a period of four years.

The allocation of purchase consideration to assets and liabilities is not yet finalized. We continue to evaluate the fair value of certain assets and liabilities related to the acquisition of Icera. Additional information, which existed as of the acquisition date but was at that time unknown to us, may become known to us during the remainder of the measurement period, a period not to exceed twelve months from the acquisition date. Changes to amounts recorded as assets or liabilities may result in a corresponding adjustment to goodwill.

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The preliminary fair values of the assets acquired and liabilities assumed by major class in the acquisition of Icera were recognized as follows (in thousands):

Cash	$3,315
Accounts receivable	13,740
Inventory	13,510
Prepaid and other current assets	1,972
Deferred tax assets	13,036
Property, plant and equipment	3,649
Goodwill	271,186
Intangible assets	97,515
Other assets	591
Total assets acquired	418,514
Accounts payable	(6,026)
Accrued liabilities	(38,735)
Notes payable	(10,319)
Income taxes payable	(4,558)
Deferred income tax liabilities	(6,677)
Net assets acquired	$352,199

The goodwill of $271.2 million arising from the acquisition is primarily attributed to the assembled workforce of Icera and premium paid over net assets acquired. Goodwill recognized is not expected to be deductible for tax purposes. We have determined that goodwill from the acquisition of Icera should be allocated to our Consumer Products Business, or CPB, operating segment. In addition, revenue contribution from Icera was not significant for the first three months of fiscal year 2013.

The acquisition-related intangible assets assumed from the acquisition of Icera were recognized as follows based upon their fair values as of June 10, 2011:

Intangible assets	Fair Value	Weighted-average estimated useful lives
	(In thousands)	(In years)
Technology	$58,300	7.4
In-process technology	$20,200	indefinite
Customer relationships	$18,200	6.8

Technology

Technology consists of core technology and existing technology. Core technology represents a series of processes and trade secrets that are used in Icera's products and form a major part of the architecture of both the current products and planned future releases of current products. We used a profit allocation method to value the core technology of Icera, based on market royalties for similar fundamental technologies. The profit allocation method estimates the cost savings that accrue to the owner of an intangible asset that would otherwise be payable on revenues earned through the use of the asset. The royalty rate we used was based on an analysis of empirical, market-derived royalty rates for guideline intangible assets. Revenue was projected over the expected remaining useful life of the core technology and then the market-derived royalty rate was applied to estimate the royalty savings.

Existing technology is specific to certain products acquired that have also passed technological feasibility. We used an income approach to value Icera's existing technology. Using this approach, we calculated the estimated fair value using expected future cash flows from specific products discounted to their net present values at an appropriate risk-adjusted rate of return.

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In-Process Technology

In-process technology, or IPR&D, represents the fair values of incomplete Icera research and development projects that had not reached technological feasibility as of the date of acquisition. In the future, the fair value of each project at the acquisition date will be either amortized or impaired depending on whether the projects are completed or abandoned.

The fair value of the IPR&D was determined using the income approach. Under the income approach, the expected future cash flows from each project under development was estimated and discounted to their net present values at an appropriate risk-adjusted rate of return. Significant factors considered in the calculation of the rate of return were the weighted average cost of capital, the return on assets, as well as the risks inherent in the development process, including the likelihood of achieving technological success and market acceptance. Each project was analyzed to determine the unique technological innovations, the existence and reliance on core technology, the existence of any alternative future use or current technological feasibility, and the complexity, cost and time to complete the remaining development. Future cash flows for each project were estimated based on forecasted revenue and costs, taking into account the expected product life cycles, market penetration and growth rates.

Customer Relationships

Customer relationships represent the fair value of projected cash flows that will be derived from the sale of products to Icera's existing customers based on existing, in-process, and future versions of the underlying technology.

Note 9 - Intangible Assets

The components of our amortizable intangible assets are as follows:

	April 29, 2012			January 29, 2012		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
	(In thousands)					
Technology licenses	$357,868	$(110,691)	$247,177	$319,930	$(99,302)	$220,628
Acquisition-related intangible assets	172,039	(83,593)	88,446	172,039	(79,261)	92,778
Patents	48,403	(20,631)	27,772	32,456	(19,726)	12,730
Total intangible assets	$578,310	$(214,915)	$363,395	$524,425	$(198,289)	$326,136

The increase in gross carrying amount of intangible assets is primarily due to an agreement entered into during the quarter to acquire a patent portfolio for our mobile business.

Amortization expense associated with intangible assets for the three months ended April 29, 2012 was $16.6 million. Amortization expense associated with intangible assets for the three months ended May 1, 2011 was $10.9 million. Amortization expense increased compared to the prior year primarily due to the addition of acquisition-related intangible assets from the Icera acquisition completed on June 10, 2011. Please refer to Note 8 of these Notes to Condensed Consolidated Financial Statements for further information regarding the Icera business combination. Future amortization expense related to the net carrying amount of intangible assets at April 29, 2012 is estimated to be $50.6 million for the remainder of fiscal year 2013, $59.5 million in fiscal year 2014, $59.5 million in fiscal year 2015, $57.3 million in fiscal year 2016, $48.0 million in fiscal year 2017 and a total of $88.5 million in fiscal year 2018 and fiscal years subsequent to fiscal year 2018.

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Note 10 - Balance Sheet Components

Certain balance sheet components are as follows:

	April 29, 2012	January 29, 2012
Inventories:	(In thousands)	
Raw materials	$108,589	$84,927
Work in-process	82,779	62,934
Finished goods	151,339	192,436
Total inventories	$342,707	$340,297

At April 29, 2012, we had outstanding inventory purchase obligations totaling approximately $594.8 million.

	April 29, 2012	January 29, 2012
Prepaid Expenses and Other:	(In thousands)	
Prepaid maintenance	$16,375	$12,965
Prepaid insurance	4,537	3,502
Prepaid taxes	57,369	10,069
Prepaid rent	2,606	3,410
Other	16,624	19,465
Total prepaid expenses and other	$97,511	$49,411

	April 29, 2012	January 29, 2012
	(In thousands)	
Accrued Liabilities:		
Deferred revenue	$272,367	$270,649
Accrued customer programs (1)	143,099	143,972
Warranty accrual (2)	17,070	18,406
Accrued payroll and related expenses	51,943	88,879
Accrued legal settlement (3)	30,600	30,600
Taxes payable, short- term	9,068	6,941
Other	27,679	35,439
Total accrued liabilities and other	$551,826	$594,886

(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.

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	April 29, 2012	January 29, 2012
	(In thousands)	
Other Long-Term Liabilities:		
Deferred income tax liability	$133,004	$133,288
Income taxes payable, long term	108,281	63,007
Asset retirement obligation	10,321	10,199
Deferred revenue	134,338	200,370
Other long-term liabilities	66,561	48,943
Total other long-term liabilities	$452,505	$455,807

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.

Accrual for Product Warranty Liabilities
We record a reduction to revenue for estimated product returns at the time revenue is recognized primarily based on historical return rates. Cost of revenue includes the estimated cost of product warranties. 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 months ended April 29, 2012 and May 1, 2011 were as follows:

	Three Months Ended	
	April 29, 2012	May 1, 2011
	(In thousands)	
Balance at beginning of period (1)	$18,406	$107,896
Additions	1,679	1,406
Deductions (2)	(3,015)	(28,578)
Balance at end of period	$17,070	$80,724

(1) Includes $13.2 million and $103.7 million related to warranty accrual associated with incremental repair and replacement costs from a weak die/packaging material set for the three months ended April 29, 2012 and May 1, 2011, respectively.

(2) Includes $1.2 million and $23.4 million for the three months ended April 29, 2012 and May 1, 2011, respectively, in payments related to the warranty accrual associated with incremental repair and replacement costs from a weak die/packaging material set.

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.

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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. The two landlord cases have been settled with payments from the landlords to NVIDIA, and the equity security holders lawsuit was dismissed with prejudice and no appeal was filed. Accordingly, only the bankruptcy trustee suit remains outstanding as more fully explained below.

In March 2003, the Trustee appointed by the Bankruptcy Court to represent 3dfx's bankruptcy estate served a complaint on NVIDIA asserting claims for, among other things, successor liability and fraudulent transfer and seeking 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 therefore was responsible for all of 3dfx's unpaid liabilities.

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.

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.

The District Court's hearing on the Trustee's appeal was held on June 10, 2009. On December 20, 2010, the District Court issued an Order affirming the Bankruptcy Court's entry of summary judgment in NVIDIA's favor. On January 19, 2011, the Trustee filed a Notice of Appeal to the United States Court of Appeals for the Ninth Circuit.

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. filed suit against NVIDIA, asserting patent infringement of 17 patents claimed to be owned by Rambus. Rambus sought 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 sought damages, enhanced damages and injunctive relief. Rambus subsequently dropped two patents from its lawsuit in the Northern District of California. The two cases were consolidated into a single proceeding in the San Francisco division of the Northern District of California. On April 13, 2009, the Court issued an order staying motion practice and allowing only certain document discovery to proceed. On February 11, 2011, the Court lifted the stay and ordered that discovery on other issues could proceed. The Court thereafter opened motion practice and discovery with respect to ten patents, referred to as the “Farmwald” and “Barth II” patents. Most of the “Farmwald” patents were also subject to patent reexamination requests.

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 subsequently withdrew 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 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 appealed certain aspects of the ruling that were unfavorable to NVIDIA. Rambus also appealed certain aspects of the ruling that were unfavorable to Rambus. A hearing was held on October 6, 2011 and a decision regarding the appeal has not yet been issued.

On May 13, 2011, the Federal Circuit issued opinions in two related cases that addressed issues material to the disputes between Rambus and certain other parties in the ITC. Those opinions could have positively affected NVIDIA's defenses in all of the cases brought against NVIDIA by Rambus. In those opinions, the Federal Circuit held Rambus destroyed documents when it had a legal duty to preserve them and that, if done in bad faith, Rambus is to bear the “heavy burden” to prove that NVIDIA suffered no prejudice in its ability to defend the cases brought against it by Rambus. In the ITC's Final Decision, despite finding Rambus acted in bad faith, the ITC incorrectly placed the burden on NVIDIA to prove actual prejudice. The Federal Circuit remanded both cases to the respective district courts for further proceedings consistent with its opinions.

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. With respect to the claims asserted in the ITC, the USPTO issued a preliminary ruling invalidating many of the claims. The USPTO 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 cancelled all asserted claims of one of the patents and allowed the asserted claims on the other two patents. Rambus and NVIDIA both sought review of the USPTO Examiner's adverse findings. On appeal, the Board of Patent Appeals and Interferences found the relevant claims of the three asserted “Barth I” patents subject to reexamination invalid.

Rambus has also been subject to an investigation in the European Union. NVIDIA was not a party to that investigation, but 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 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 with thirty days prior written notice to Rambus. NVIDIA has already provided written notice to Rambus of its' intent to terminate effective immediately upon the removal of the ITC's limited exclusion order.

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On December 1, 2010, Rambus filed a lawsuit against NVIDIA and several other companies alleging six claims for patent infringement. This lawsuit was brought in the Northern District of California and sought damages, enhanced damages and injunctive relief. 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. Rambus sought exclusion of certain NVIDIA products from importation into the United States. The Northern District of California stayed the case pending resolution of the ITC investigation. The asserted patents are related to each other, and the three patents in the ITC complaint were also at issue in the lawsuit pending in the Northern District of California. Many of the patents at issue in these lawsuits were also being challenged in Rambus' other disputes with NVIDIA. A hearing before an Administrative Law Judge of the ITC was held from October 12-20, 2011, and no ruling has been issued to date.

On February 7, 2012, NVIDIA and Rambus entered into a settlement agreement and a patent license agreement. The two agreements resolve all disputes between NVIDIA and Rambus. The parties are in the process of dismissing all lawsuits, appeals, and ITC actions to the maximum extent allowable by law. The settlement did not have a significant impact on NVIDIA's consolidated financial statements.

Product Defect Litigation and Securities Cases

Product Defect Litigation

In September, October and November 2008, several putative consumer class action lawsuits were filed against us, asserting various claims arising from a weak die/packaging material set in certain versions of our previous generation products used in notebook configurations. On February 26, 2009, the various lawsuits were consolidated in the United States District Court for the Northern District of California, San Jose Division, under the caption "The NVIDIA GPU Litigation." 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 was subject to certain approvals, including final approval by the court. As a result of the settlement in principle, and 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/packaging 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 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 Final Approval Hearing was held on December 20, 2010, and on that same day the Court approved the settlement and entered Final Judgment over several objections. In January 2011, several objectors filed Notices of Appeal of the Final Judgment to the United States Court of Appeals for the Ninth Circuit.

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On July 22, 2011, a putative class action titled Granfield v. NVIDIA Corp. was filed in federal court in Massachusetts asserting claims for breach of implied warranties arising out of the weak die/packaging material set, on behalf of a class of consumers alleged to not be covered by the settlement approved by the California court in The NVIDIA GPU Litigation. On November 3, 2011 the action was transferred to the Northern District of California, San Francisco Division, based upon stipulation of the parties. On December 30, 2011, Plaintiff filed a First Amended Complaint asserting claims for violation of California Consumers Legal Remedies Act and Unfair Competition Law. On March 19, 2012, Plaintiff filed a Second Amended Complaint asserting claims for California Consumers Legal Remedies Act and Unfair Competition Law violations, Breach of Implied Warranty, and violations of the Massachusetts consumer protection statutes. NVIDIA filed a motion to dismiss the Second Amended Complaint on April 12, 2012.

On September 27, 2011, a second putative class action captioned Van der Maas v. NVIDIA Corp., et al., was filed in the Central District of California against NVIDIA, Asustek Computer Inc., and Asustek Computer International on behalf of certain consumers alleged not to be covered by the NVIDIA GPU settlement. This action asserted claims for violations of California's unfair competition laws, violation of California's Consumer Legal Remedies Act, negligence and strict liability, and violation of the Texas Business and Commerce Code Section 17.50. On March 16, 2012, after Plaintiffs reached a settlement agreement with NVIDIA, Asustek Computer, Inc. and Asustek Computer International, Plaintiffs filed a notice of dismissal, and the Court dismissed the action on March 19, 2012.

Securities Cases

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/packaging 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, as amended, or the Securities Exchange Act. 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), 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. We moved to dismiss the Second Consolidated Amended Complaint on February 14, 2011. Following oral argument, on October 12, 2011, Judge Seeborg granted our motion to dismiss without leave to amend, and on November 8, 2011, Plaintiffs filed a Notice of Appeal to the Ninth Circuit.

Accounting for Loss Contingencies

While there can be no assurance of favorable outcomes, we believe the claims made by other parties in the above ongoing matters are without merit and we intend to vigorously defend the actions. With the exception of the 3dfx and product defect litigation cases, we have not recorded any accrual for contingent liabilities associated with the legal proceedings described above based on our belief that liabilities, while possible, are not probable. Further, any possible range of loss in these matters cannot be reasonably estimated at this time. We are engaged in other legal actions not described above arising in the ordinary course of its business and, while there can be no assurance of favorable outcomes, we believe that the ultimate outcome of these actions will not have a material adverse effect on our operating results, liquidity or financial position.

NVIDIA CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED 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 months ended April 29, 2012. Through April 29, 2012, 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 April 29, 2012, we are authorized, subject to certain specifications, to repurchase shares of our common stock up to $1.24 billion through May 2013.

Convertible Preferred Stock

As of April 29, 2012 and January 29, 2012, there were no shares of preferred stock outstanding.

Common Stock

We are authorized to issue up to 2,000,000,000 shares of our common stock at $0.001 per share par value.

Note 14 - 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. We report financial information for three operating segments to our CODM: Graphics Processing Unit, or GPU, Business; Professional Solutions Business, or PSB; and Consumer Products Business, or CPB. The GPU business is comprised of our desktop, notebook, memory and chipset products. Our GPU business also includes license revenue in connection with our patent cross license agreement with Intel. The PSB includes Quadro workstation graphics and Tesla high-performance computing products. The CPB is comprised of Tegra based smartphone and tablet products as well as Icera baseband processors and radio frequency, or RF, transceivers. Our CPB also includes embedded products for entertainment and automotive devices as well as license and royalty revenue associated with game consoles.
In addition to these operating segments, we also have an "All Other" category that includes non-recurring charges and benefits which we do not allocate to our operating segments as these items are not included in the segment operating performance measures evaluated by our CODM. There were no non-recurring charges or benefits for the three months

ended April 29, 2012 and May 1, 2011, respectively.

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.

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

	GPU	PSB	CPB	All Other	Consolidated
	(In thousands)				
Three Months Ended April 29, 2012					
Revenue	$579,721	$212,644	$132,512	$—	$924,877
Depreciation and amortization expense	$31,575	$4,385	$18,531	$—	$54,491
Operating income (loss)	$78,947	$95,787	$(101,908)	$—	$72,826
Three Months Ended May 1, 2011					
Revenue	$637,589	$201,841	$122,609	$—	$962,039
Depreciation and amortization expense	$29,028	$6,118	$12,618	$—	$47,764
Operating income (loss)	$120,283	$69,885	$(35,306)	$—	$154,862

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	
	April 29, 2012	May 1, 2011
	(In thousands)	
Revenue:		
China	$178,610	$289,484
Taiwan	276,318	282,937
Other Asia Pacific	178,677	132,587
United States	145,942	109,318
Other Americas	75,822	75,130
Europe	69,508	72,583
Total revenue	$924,877	$962,039

Revenue from significant customers, those representing 10% or more of total revenue, was approximately 21% in the aggregate of our total revenue from two customers for the three months ended April 29, 2012 and approximately 11% of our total revenue from one customer for the three months ended May 1, 2011.

Accounts receivable from significant customers, those representing 10% or more of total accounts receivable, aggregated approximately 21% of our accounts receivable balance from one customer at April 29, 2012 and approximately 20% of our accounts receivable balance from one customer at January 29, 2012.

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 wher it is made clear that the term means only the parent company.

NVIDIA, the NVIDIA logo, GeForce, Icera, Kepler, 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 29, 2012 and "Item 1A. Risk Factors" of this Quarterly Report on Form 10-Q and 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 is known to millions around the world for creating the graphics chips used in personal computers, or PCs, that bring games and home movies to life. With the invention of the graphics processing unit, or GPU, we introduced the world to the power of computer graphics. Today, we reach well beyond PC graphics. Our energy-efficient processors power a broad range of products, from smart phones to supercomputers. Our mobile processors are used in cell phones, tablets and auto infotainment systems. PC gamers rely on our GPUs to enjoy visually immersive worlds. Designers use GPUs to create visual effects in movies and create everything from golf clubs to jumbo jets. Researchers utilize GPUs to push the frontiers of science with high-performance computing. NVIDIA has nearly 5,000 patents granted and pending worldwide.

NVIDIA solutions are based on two important technologies: the GPU and the mobile processor. Both are highly complex chips, designed by NVIDIA engineers, and manufactured for us by a third party chip foundry. GPUs are the engines of visual computing, the science and art of using computers to understand, create and enhance images. One of the most complex processors ever created, the most advanced GPUs contain billions of transistors. We have three GPU product brands: GeForce, which creates realistic visual experiences for gamers; Quadro, the standard in visual computing for designers and digital artists; and Tesla, which accelerates applications for scientists and researchers.

Mobile processors incorporate central processing unit, or CPU, and GPU technologies to deliver an entire computer system on a single chip, or system-on-chip. Modern mobile processors possess significant computing capabilities yet consume one hundred times less energy than a typical PC. Tegra is our mobile processor and is built for applications ranging from smartphones, tablets and notebook PCs to televisions and cars. We believe energy-efficient mobile computing will transform how computers are used in our lives.

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. The contents of our website are not a part of this Form 10-Q.

Recent Developments, Future Objectives and Challenges

During the first quarter of fiscal year 2013, we launched our new Kepler GPU architecture. Our first Kepler products to be launched were the GeForce GTX 670 and GeForce GTX 680, which are faster, smaller and more power efficient than our previous architecture. We also introduced our third GeForce Kepler product, the GeForce GTX 690, which uses two Kepler GPUs to further enhance performance.

We also refreshed our notebook GPUs with the launch of the GeForce 600M series. Acer's Aspire Timeline M3, which incorporates the GeForce 600M, is the first Ultrabook with an NVIDIA GPU.

In addition, the first Tegra 3 phone, the HTC One X was launched during the first quarter of fiscal year 2013. Other noteworthy phone wins announced at Mobile World Congress in March, 2012 include ZTE, the first Tegra plus Icera phone, Fujitsu, LG and K-Touch.

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 an operating segment basis for purposes of making operating decisions and assessing financial performance. We report financial information for three operating segments to our CODM: Graphics Processing Unit, or GPU, Business; Professional Solutions Business, or PSB; and Consumer Products Business, or CPB. The GPU business is comprised of our desktop, notebook, memory and chipset products. Our GPU business also includes license revenue in connection with our patent cross license agreement with Intel. The PSB includes Quadro workstation graphics and Tesla high-performance computing products. The CPB is comprised of Tegra based smartphone and tablet products as well as Icera baseband processors and radio frequency, or RF, transceivers. Our CPB also includes embedded products for entertainment and automotive devices as well as license and royalty revenue associated with game consoles.

In addition to these operating segments, we also have an “All Other” category that includes non-recurring charges and benefits that we do not allocate to our operating segments as these items are not included in the segment operating performance measures evaluated by our CODM. There were no non-recurring charges or benefits for the three months ended April 29, 2012 and May 1, 2011, respectively. Please refer to Note 14 of the Notes to the Condensed Consolidated Financial Statements for further disclosure regarding segment information.

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.

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			
	April 29, 2012		May 1, 2011	
Revenue	100.0	%	100.0	%
Cost of revenue	49.9		49.6	
Gross profit	50.1		50.4	
Operating expenses				
Research and development	30.7		24.1	
Sales, general and administrative	11.5		10.2	
Total operating expenses	42.2		34.3	
Operating income	7.9		16.1	
Interest and other income, net	0.5		0.2	
Income before income tax	8.4		16.3	
Income tax expense	1.8		2.2	
Net income	6.6	%	14.1	%

Three Months Ended April 29, 2012 and May 1, 2011.

Revenue

Revenue was $924.9 million for our first quarter of fiscal year 2013, compared to $962.0 million for our first quarter of fiscal year 2012, which represents a decrease of approximately 3.9%. A discussion of our revenue results for each of our operating segments is as follows:

GPU Business. GPU business revenue decreased approximately 9.1% to $579.7 million in the first quarter of fiscal year 2013, compared to $637.6 million for the first quarter of fiscal year 2012. GPU revenues decreased primarily due to a decrease in the volume of our high-end desktop GPU driven by a supply shortage of our new generation of 28 nanometer Kepler products, offset slightly by an increase of mainstream desktop GPU sales volume. Revenues from our media and communications processors, or MCPs, decreased as these chipsets approach their end of life. Memory sales also decreased as a result of lower sales of high-end products in desktop. Offsetting these decreases were increases in notebook revenues due to both volume and richer product mix driven by strong design wins based on Intel's Ivy Bridge platform. License revenue in connection with the License Agreement that we entered into with Intel in January 2011 also contributed to the revenue for our GPU business.

PSB. PSB revenue increased approximately 5.4% to $212.6 million in the first quarter of fiscal year 2013, compared to $201.8 million in the first quarter of fiscal year 2012. This was mainly due to a richer product mix for our workstation and Tesla products and stronger enterprise spending.

CPB. CPB revenue increased approximately 8.1% to $132.5 million in the first quarter of fiscal year 2013, compared to $122.6 million for the first quarter of fiscal year 2012. This was primarily due to higher sales of our embedded entertainment products that increased in the first quarter of fiscal year 2013 when compared to the first quarter of fiscal year 2012 driven by customer refreshes of entertainment systems. Offsetting this increase was a decrease in our Tegra 2 based products, ahead of the full ramp of our Tegra 3 products for smartphone and tablet devices.

Concentration of Revenue

Revenue from sales to customers outside of the United States and Other Americas accounted for 76% and 81% of total revenue for the first quarter of fiscal years 2013 and 2012, 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, was approximately 21% in the aggregate of our total revenue from two customers for the first quarter of fiscal year 2013 and approximately 11% of our total revenue from one customer for the first quarter of fiscal year 2012.

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 50.1% and 50.4% for the first quarter of fiscal years 2013 and 2012, respectively. The decrease in gross margin is attributable to less favorable product mix primarily from our desktop GPU business.

We expect our gross margin for the second quarter of fiscal year 2013 to improve when compared to first quarter of fiscal year 2013. We intend to continue to work to improve our gross margin by, among other things, focusing on delivering cost effective product architectures and enhancing our business processes.

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 decreased between the first quarter of fiscal year 2013 and first quarter of fiscal year 2012. GPU margins decreased primarily due to a decrease in the volume of our high-end desktop GPU driven by a supply shortage of our new generation of 28 nanometer Kepler products, offset slightly by an increase of mainstream desktop GPU sales volume.

PSB. The gross margin of our PSB improved in the first quarter of fiscal year 2013 when compared to first quarter of fiscal year 2012. Quadro and Tesla margins improved on account of a richer product mix, as well as higher sales volume for our Tesla products.

CPB. The gross margin of our CPB decreased between the first quarter of fiscal year 2013 and first quarter of fiscal year 2012. Gross margin for our mobile products decreased primarily on account of a shift in product mix from tablet to smartphones sales. Offsetting this was improvement in embedded entertainment revenue due to stronger arcade game sales.

Operating Expenses

	Three Months Ended			
	April 29, 2012	May 1, 2011	$ Change	% Change
	($ in millions)			
Research and development expenses	$283.9	$231.5	$52.4	22.6 %
Sales, general and administrative expenses	106.6	98.1	8.5	8.7 %
Total operating expenses	$390.5	$329.6	$60.9	18.5 %
Research and development as a percentage of net revenue	30.7 %	24.1 %		
Sales, general and administrative as a percentage of net revenue	11.5 %	10.2 %		

Research and Development

Research and development expenses were $283.9 million and $231.5 million during the first quarter of fiscal years 2013 and 2012, respectively, an increase of $52.4 million, or 22.6%. Compensation and benefits increased by $26.3 million and stock-based compensation increased by $2.6 million, both of which were primarily related to the growth in headcount. Development cost increased by $6.5 million as a result of development ramp up to the launch of Kepler 28 nanometer technology. Depreciation and amortization increased by $2.6 million primarily due to the amortization of new additional hardware and licenses. Also contributing to the increase were other acquisition-related costs of $4.1 million for compensation charges related to the retention program we have established for employees from our acquisition of Icera in June 2011 and $2.3 million of amortization expense for intangible assets associated with our acquisition of Icera.

Sales, General and Administrative

Sales, general and administrative expenses were $106.6 million and $98.1 million during the first quarter of fiscal years 2013 and 2012, respectively, an increase of $8.5 million, or 8.7%. Compensation and benefits increased by $6.9 million and stock-based compensation increased by $1.2 million, both of which were primarily related to growth in headcount. Also contributing to the increase were $0.6 million of amortization expense for intangible assets associated with our acquisition of Icera in June 2011.

We expect operating expenses to increase in the second quarter of fiscal year 2013 associated with personnel hires that we have made and a corporate donation to Stanford Hospital of $25.0 million.

Interest Income

Interest income consists of interest earned on cash, cash equivalents and marketable securities. Interest income was $5.2 million and $5.3 million in the first quarter of fiscal years 2013 and 2012, respectively, a decrease of $0.1 million, primarily due to lower yields on investments in the first quarter of fiscal year 2013 when compared to the first quarter of fiscal year 2012.

Other Expense

Other expense primarily consists of realized gains and losses on the sale of marketable securities and foreign currency translation. Other expense was $0.9 million in the first quarter of fiscal year 2013 compared to $3.7 million in the first quarter of fiscal year 2012, a decrease of $2.8 million. The decrease was primarily driven by lower foreign currency losses in the first quarter of fiscal year 2013 compared to first quarter of fiscal year 2012.

Income Taxes

We recognized income tax expense of $16.7 million and $21.3 million for the first quarter of fiscal years 2013 and 2012, respectively. Income tax expense as a percentage of income before taxes, or our effective tax rate, was 21.6% and 13.6% for the first quarter of fiscal years 2013 and 2012, respectively. The increase in our effective tax rate of 21.6% from 13.6% was primarily related to the expiration of the U.S. federal research tax credit in December 31, 2011, which provided no tax benefit in the first quarter of fiscal year 2013.

Our effective tax rate on income before tax for the first quarter of fiscal year 2013 of 21.6% was lower than the United States federal statutory rate of 35.0% due primarily to income earned in jurisdictions where the tax rate is lower than the United States federal statutory tax rate.

Our effective tax rate on income before tax for the first quarter of fiscal year 2012 of 13.6% was lower than the United States federal statutory rate of 35.0% due primarily to income earned in jurisdictions where the tax rate is lower than the United States federal statutory tax and the benefit of the U.S. federal research tax credit. Further, our annual projected effective tax rate of 16.7% as of the first quarter of fiscal year 2012 differs from our effective tax rate for the first quarter of fiscal year 2012 of 13.6% due to favorable discrete events that occurred in the first quarter of fiscal year 2012 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.

We expect our effective tax rate in the second quarter of fiscal year 2013 to be relatively consistent from the first quarter of fiscal year 2013.

Please refer to Note 4 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 April 29, 2012	As of January 29, 2012
	(In millions)	
Cash and cash equivalents	$369.1	$667.9
Marketable securities	2,761.7	2,461.7
Cash, cash equivalents, and marketable securities	$3,130.8	$3,129.6

	Three Months Ended	
	April 29, 2012	May 1, 2011
	(In millions)	
Net cash (used in) provided by operating activities	$(9.2)	$172.2
Net cash used in investing activities	$(335.1)	$(252.5)
Net cash provided by financing activities	$45.5	$98.6

As of April 29, 2012, we had $3.13 billion in cash, cash equivalents and marketable securities, an increase of $1.2 million from cash, cash equivalents, and marketable securities as of January 29, 2012. Our portfolio of cash equivalents and marketable securities is managed on our behalf by several financial institutions which are required to follow our investment policy, which 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 used cash of $9.2 million and provided cash of $172.2 million during the first quarter of fiscal years 2013 and 2012, respectively. The decrease in cash provided by operating activities in the first quarter of fiscal year 2013 was primarily due to a decrease in our net income and an increase in accounts receivable as a result of the increased shipments towards the latter half of the first quarter of fiscal year 2013.

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 $335.1 million and $252.5 million during the first quarter of fiscal years 2013 and 2012, respectively. The increase in cash used for investing activities was as a result of increase in net purchases, sales and maturities of our available for sale investments.

Financing activities

Financing activities provided cash of $45.5 million and $98.6 million during the first quarter of fiscal years 2013 and 2012, respectively. Net cash provided by financing activities decreased in the first quarter of fiscal year 2013 primarily due to a decrease of proceeds from the issuance of common stock under our employee stock purchase plan and from the exercise of stock options during the first quarter of fiscal year 2013.

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 April 29, 2012, 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 April 29, 2012 and January 29, 2012, we had $3.13 billion, 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 April 29, 2012, we were in compliance with our investment policy. As of April 29, 2012, our investments in government agencies and government sponsored enterprises represented approximately 51% of our total investment portfolio, while the financial sector accounted for approximately 29% of our total investment portfolio. Of the financial sector investments, 35% are guaranteed by the U.S. government. All of our investments are with A/A2 or better rated securities.

We performed an impairment review of our investment portfolio as of April 29, 2012. Based on our quarterly impairment review, we concluded that our investments were appropriately valued and did not record any impairment during the first quarter of fiscal year 2013

Net realized gains for the first quarter of fiscal years 2013 and 2012, were not significant. As of April 29, 2012, we had a net unrealized gain of $11.3 million, which was comprised of gross unrealized gains of $11.9 million, offset by gross unrealized losses of $0.6 million. As of January 29, 2012, we had a net unrealized gain of $11.5 million, which was comprised of gross unrealized gains of $12.0 million, offset by $0.5 million of gross unrealized losses.

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. One customer accounted for approximately

21% of our accounts receivable balance at April 29, 2012. 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 first quarter of fiscal year 2013 . Through April 29, 2012, 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 April 29, 2012, 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 $105.0 million to $135.0 million for capital expenditures during the remainder of fiscal year 2013.

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."

Contractual Obligations

As of April 29, 2012, we had outstanding inventory purchase obligations totaling approximately $594.8 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 29, 2012.

In addition, in connection with our completion of the acquisition of Icera on June 10, 2011, we have established a retention program in the aggregate amount of approximately $68.0 million to be paid out to Icera employees over a period of four years.

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 April 29, 2012, we had no material off-balance sheet arrangements as defined in Regulation S-K 303(a)(4)(ii).

Adoption of New and Recently Issued Accounting Pronouncements

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Investment and Interest Rate Risk

As of April 29, 2012 and January 29, 2012, we had $3.13 billion, 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 April 29, 2012, we did not have any investments in auction-rate preferred securities. All of 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 statement 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 April 29, 2012, we performed a sensitivity analysis on our floating and fixed rate 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 $15.4 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 April 29, 2012, our investments in government agencies and government sponsored enterprises represented approximately 51% of our total investment portfolio, while the financial sector accounted for approximately 29% of our total investment portfolio. Of the financial sector investments, 35% 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 $45.9 - $114.8 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 gain (loss) included in determining net income for the first quarter of fiscal years 2013 and 2012 was $0.3 million and $(2.2) 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 April 29, 2012.

ITEM 4. CONTROLS AND PROCEDURES

Controls and Procedures

Disclosure Controls and Procedures

Based on their evaluation as of April 29, 2012, our management, including our Chief Executive Officer and Interim 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, or the Exchange Act) were effective to provide reasonable assurance.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal controls over financial reporting during our fiscal quarter ended April 29, 2012 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 Interim 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. OTHER INFORMATION

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

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 Company Limited, 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 set pricing or 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, due to capacity constraint at TSMC of our 28 nanometer Kepler graphics processing units, or GPUs, we were unable to fulfill customer demand for our high-end desktop GPU products, and as our sales mix shifted to our mainstream desktop GPU products, revenue and gross margins for the first quarter of fiscal year 2013 were negatively impacted compared to the prior quarter.

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 0.18 micron, 0.14 micron, 0.13 micron, 0.11 micron, 90 nanometer, 80 nanometer, 65 nanometer, 55 nanometer, 40 nanometer, and 28 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 manufacture our products at prices that are competitive to what our competitors pay. If our third-party foundries do not charge us competitive prices, 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 and our recent transition to a wafer buy model where the costs of our products are based on the price per wafer versus price per functional die, 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.

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 extremely competitive, and we expect competition to intensify as current competitors expand their product offerings, industry standards continue to evolve and others realize the market potential of mobile and consumer products and services.

Our current competitors include:

- suppliers of GPUs, including chipsets that incorporate three-dimensional, or 3D graphics functionality as part of their existing solutions, such as Advanced Micro Devices, or AMD, Intel Corporation, Matrox Electronics Systems Ltd. and VIA Technologies, Inc.;

- suppliers of system-on-chip products that support tablets, smartphones, automotive navigation and other similar devices, such as AMD, Broadcom Corporation, Freescale Semiconductor Inc., Fujitsu Limited, Intel, Marvell Technology Group Ltd., NEC Corporation, Qualcomm Incorporated, Renesas Electronics Corporation, Samsung Electronics Co. Ltd., Seiko Epson Corporation, ST-Ericsson, Texas Instruments Incorporated and Toshiba America Electronic Components, Inc.;

- licensors of graphics technologies, such as ARM Holdings plc and Imagination Technologies Group plc; and

- suppliers of cellular basebands, such as Broadcom, Freescale Semiconductor, GCT Semiconductor Inc., HiSilicon Technologies Co., Ltd., Intel, Marvell, Mediatek, Qualcomm, Renesas Electronics, Samsung, Spreadtrum Communications Co., Ltd, ST-Ericsson, Texas Instruments and VIA Technologies, Inc.

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. Furthermore, competitors with greater financial resources may be able to offer lower prices than us, or they may offer additional products, services or other incentives that we may not be able to match. In addition, many of our competitors operate and maintain their own fabrication facilities and have longer operating histories, greater name recognition, larger customer bases, and greater sales, marketing and distribution resources than we do.

Our ability to compete will depend on, among other factors, our ability to:

- continue to keep pace with technological developments;
- develop and introduce new products, services, technologies and enhancements on a timely basis;
- transition our semiconductor products to increasingly smaller line width geometries;
- obtain sufficient foundry capacity and packaging materials; and
- succeed in significant foreign markets, such as China and India.

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.

If and to the extent we offer products in new markets, we may face competition from existing competitors as well as from companies with which we currently do not compete. We expect substantial competition from Intel and AMD, both of whom have a strategy of selling platform solutions, including integrating a central processing unit, or CPU, and a GPU on the same chip. As Intel and AMD continue to pursue platform solutions and integrated CPUs, our business could be negatively impacted.

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

In order to maintain or improve our financial results, we will need to continue to identify and develop new products and enhancements to our existing products in a timely and cost-effective manner. The process of developing new products and services and enhancing existing products and services is highly complex, costly and uncertain, and any failure by us to anticipate customers' changing needs and emerging technology trends could adversely affect our business. We must make long-term investments and commit significant resources before knowing whether our predictions will accurately reflect customer demand for our new products and technologies. It is possible that our development efforts will not be successful and that our new technologies will not result in meaningful revenues. Even if we introduce new and enhanced products to the market, we may not be able to achieve market acceptance of them in a timely manner.

Our ability to successfully develop and deliver new products will depend on various factors, including our ability to:

- effectively identify and capitalize upon opportunities in new markets;
- timely complete and introduce new products and technologies;
- transition our semiconductor products to increasingly smaller line width geometries; and
- obtain sufficient foundry capacity and packaging materials.

We occasionally have experienced delays in completing the development and introduction of new products and product enhancements, and we could experience delays in the future. In addition, in the past, we have been unable to successfully manage product transitions from older to newer products resulting in obsolete inventory. Our failure to successfully develop and introduce new products and technologies 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 harm our competitive position and cause our revenue, gross margin and overall financial results to suffer.

If we are unable to achieve market acceptance and design wins for our products and technologies, our results of operations and competitive position will be harmed.

The success of our business depends to a significant extent on our ability to achieve market acceptance of our new products and enhancements to our existing products and identify and enter new markets. The market for our product and technologies 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. If we do not successfully achieve or maintain market acceptance for our products and enhancements or identify and enter new markets, our ability to compete and maintain or increase revenues will suffer.

Additionally, there can be no assurance that the industry will continue to demand new products with improved standards, features or performance. If our customers, original equipment manufacturers, or OEMs, original design manufacturers, or 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.

We believe achieving design wins, which entails having our existing and future products chosen for hardware components or subassemblies designed by OEMs, ODMs, and add-in board, or AIB, and motherboard manufacturers is an integral part of our future success. Our OEM, ODM and AIB 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 AIB 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. 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 new consumer products and technologies which incorporate our products do not achieve market acceptance, our business could be negatively impacted.

The success of our business also depends on market acceptance of new consumer products and technologies, such as smartphones, smartbooks, tablets and other similar consumer electronics devices, which contain our products. As markets for these new consumer products emerge, we may encounter new sources of competition as well as customers who have different requirements than those in the personal computer, or PC, business. If market acceptance of such products and technologies is not attained, our ability to compete and maintain or increase revenues will be adversely affected.

Our ability to be successful in emerging consumer product markets depends in part on our ability to cultivate new industry relationships in these market segments. As the number and variety of Internet-connected devices increase, we will need to improve the functionality of our products to succeed in these new markets, which may require significant time and resources on our part to design our products which could negatively impact our business.

Business disruptions could seriously harm our future revenue and financial condition and increase our costs and expenses.

Our worldwide operations could be disrupted by earthquakes, telecommunications failures, power or water shortages, tsunamis, floods, hurricanes, typhoons, fires, extreme weather conditions, climate change, medical epidemics or pandemics and other natural or man-made disasters or catastrophic events. The occurrence of any of these business disruptions could result in significant losses, seriously harm our revenue and financial condition, adversely affect our competitive position, increase our costs and expenses, and require substantial expenditures and recovery time in order to fully resume operations. Our corporate headquarters, and a portion of our research and development activities, are located in California, and other critical business operations and some of our suppliers are located in Asia, near major earthquake faults known for seismic activity. In addition, a majority of our principal information technology, or IT, data centers are located in California, making our operations vulnerable to natural disasters or other business disruptions occurring in this geographical area. The manufacture of product components, the final assembly of our products and other critical operations are concentrated in certain geographic locations, including Taiwan, China and Korea. Our operations could be adversely affected if manufacturing, logistics or other operations in these locations are disrupted for any reason, including natural disasters, information technology system failures, military actions or economic, business, labor, environmental, public health, regulatory or political issues. The ultimate impact on us, our significant suppliers and our general infrastructure of being located near major earthquake faults and being consolidated in certain geographical areas is unknown. However, in the event of a major earthquake or other natural disaster or catastrophic event, our revenue, profitability and financial condition could suffer.

In late July 2011, Thailand began experiencing severe flooding that has caused widespread damage to the local manufacturing industry. PC manufacturers obtain disk drive components used in its PCs from suppliers with operations in Thailand that were and continue to be severely impacted by the flooding. These PC manufacturers have and expect to continue to experience a short-term reduction in the supply of these disk drive components. As a result, in our fourth quarter of fiscal year 2012 shipments of PCs by some PC manufacturers were reduced, which reduced the demand for our GPUs. In addition, higher disk-drive prices constrained the ability of some PC manufacturers to include a GPU in their systems which also reduced demand for our GPUs and negatively impacted our financial results for the fourth quarter of fiscal year 2012.

A decline in demand in certain end-user markets could have a material adverse effect on the demand for our products and results of operations.

Our customer base includes companies in a wide range of end-user markets, but we generate a significant amount of revenue from sales to customers in the communications-and computer-related industries. Within these end-user markets, a large portion of our revenue is generated from sales to customers in the cell phone, tablet and PC markets, including professional workstations. Decline in one or several of these end-user markets could have a material adverse effect on the demand for our products and our results of operations and financial condition. These declines could be large and sudden. Since PC, cell phone and tablet 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, these 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.

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

We receive a significant amount of our revenue from a limited number of customers. Revenue from significant customers, those representing 10% or more of total revenue, was approximately 21% in the aggregate of our total revenue from two customers for the first quarter of fiscal year 2013 and approximately 11% of our total revenue from one customer for the first quarter of fiscal year 2012. Sales to our largest customers have fluctuated significantly from period to period primarily due to the timing and number of design wins with each customer, as well as the continued diversification of our customer base as we expand into new markets, and will likely continue to fluctuate dramatically in the future. Our operating results in the foreseeable future will continue to depend on sales to a relatively small number of customers, as well as the ability of these customers to sell products that incorporate our products. In the future, these customers may decide not to purchase our products at all, purchase fewer products than they did in the past, or alter their purchasing patterns in some other way, particularly because:

- substantially all of our sales are made on a purchase order basis, which permits our customers to cancel, change or delay product purchase commitments with little or no notice to us and without penalty;
- our customers may develop their own solutions;
- our customers may purchase products from our competitors; or
- our customers may discontinue sales or lose market share in the markets for which they purchase our products.

The loss of any of our large customers or a significant reduction in sales we make to them would likely harm our financial condition and results of operations.

If we fail to appropriately scale our operations in response to changes in demand for our existing products or to the demand for new products requested by our customers, our business and profitability could be materially and adversely affected.

To achieve our business objectives, it may be necessary from time to time for us to expand or contract our operations. In the future, we may not be able to scale our workforce and operations in a sufficiently timely manner to respond effectively to changes in demand for our existing products or to the demand for new products requested by our customers. In that event, we may be unable to meet competitive challenges or exploit potential market opportunities, and our current or future business could be materially and adversely affected. Conversely, if we expand our operations and workforce too rapidly in anticipation of increased demand for our products, and such demand does not materialize at the pace at which we expected, the rate of increase in our costs and operating expenses may exceed the rate of increase in our revenue, which would adversely affect our results of operations. In addition, if such demand does not materialize at the pace which we expect, we may be required to scale down our business through expense and headcount reductions as well as facility consolidations or closures that could result in restructuring charges that would materially and adversely affect our results of operations. Because many of our expenses are fixed in the short-term or are incurred in advance of anticipated sales, we may not be able to decrease our expenses in a timely manner to offset any decrease in customer demand. If customer demand does not increase as anticipated, our profitability could be adversely affected due to our higher expense levels.

Our past growth has placed, and any future long-term growth is expected to continue to place, a significant strain on our management personnel, systems and resources. To implement our current business and product plans, we will need to continue to expand, train, manage and motivate our workforce. All of these endeavors require substantial management effort. If we are unable to effectively manage our expanding operations, we may be unable to scale our business quickly enough to meet competitive challenges or exploit potential market opportunities, or conversely, we may scale our business too quickly and the rate of increase in our costs and expenses may exceed the rate of increase in our revenue, either of which would materially and adversely affect our results of operations.

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 42.2% and 34.3% of our total revenue for the first quarter of fiscal years 2013 and 2012, 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.

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.

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.

Other factors that could depress demand for our products in the future include the European sovereign debt crisis, 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.

Our business is cyclical in nature and has experienced severe downturns that have harmed, 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.

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/packaging material set in certain versions of our previous generation media and communication processor, or 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 the 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 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.

We may not be able to realize the potential financial or strategic benefits of business acquisitions or strategic investments and we may not be able to successfully integrate acquisition targets, 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. Most recently, we completed our acquisition of Icera Inc., an innovator of baseband processors for 3G and 4G cellular phones and tablets. Such a transaction can involve significant integration challenges and there can be no assurance that pre-acquisition due diligence will have identified all possible issues and risks that might arise with respect to the acquisition. If we are unable to timely and successfully integrate the acquired operations, product lines and technology of Icera, we may not be able to realize the expected benefits of the acquisition, which could adversely affect our business plans and operating results.

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;
- difficulty integrating the target's accounting, management information, human resources and other administrative systems;
- disruption of or delays in ongoing research and development efforts;
- diversion of capital and other resources;
- assumption of liabilities;
- incurring acquisition-related costs or amortization costs for acquired intangible assets that could impact our operating results;
- diversion of resources and unanticipated expenses resulting from litigation arising from potential or actual business acquisitions or investments;
- potential failure of the due diligence processes to identify significant issues with product quality, architecture and development, or legal and financial contingencies, among other things;
-

difficulties in entering into new markets in which we have limited or no experience and where competitors in such markets have stronger positions;

- incurring significant exit charges if products acquired in business combinations are unsuccessful;
- potential inability to obtain, or obtain in a timely manner, approvals from governmental authorities, which could delay or prevent such acquisitions or investments;
- potential delay in customer and distributor purchasing decisions due to uncertainty about the direction of our product offerings; and
- impairment of relationships with employees, vendors and customers, or the loss of any of our key employees, vendors or customers our target's key employees, vendors 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.

System security risks, data protection breaches, cyber-attacks and systems integration issues could disrupt our internal operations, and any such disruption could reduce our expected revenue, increase our expenses, damage our reputation and adversely affect our stock price.

Experienced computer programmers and hackers may be able to penetrate our security controls and misappropriate or compromise our confidential information or that of third parties, create system disruptions or cause shutdowns. Computer programmers and hackers also may be able to develop and deploy viruses, worms and other malicious software programs that attack our products or otherwise exploit any security vulnerabilities of our products. The costs to us to eliminate or alleviate cyber or other security problems, bugs, viruses, worms, malicious software programs and security vulnerabilities could be significant, and our efforts to address these problems may not be successful and could result in interruptions, delays, cessation of service and loss of existing or potential customers that may impede our sales, manufacturing, distribution or other critical functions.

We manage and store various proprietary information and sensitive or confidential data relating to our business and third party business. Breaches of our security measures or the accidental loss, inadvertent disclosure or unapproved dissemination of proprietary information or sensitive or confidential data about us or our partners or customers, including the potential loss or disclosure of such information or data as a result of fraud, trickery or other forms of deception, could expose us, our partners and customers or the individuals affected to a risk of loss or misuse of this information, result in litigation and potential liability for us, damage our brand and reputation or otherwise harm our business. In addition, the cost and operational consequences of implementing further data protection measures could be significant.

Portions of our IT infrastructure also may experience interruptions, delays or cessations of service or produce errors in connection with systemic failures, systems integration or migration work that takes place from time to time. We may not be successful in implementing new systems and transitioning data, which could cause business disruptions and be more expensive, time consuming, disruptive and resource-intensive. Such disruptions could adversely impact our ability to fulfill orders and interrupt other processes. Delayed sales, lower margins or lost customers resulting from these disruptions could adversely affect, our financial results, stock price and reputation.

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 21% of our accounts receivable balance from one customer at April 29, 2012.

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 may not be able to attract and retain qualified employees which 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 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, ChipPAC, JSI Logistics, Ltd., King Yuan Electronics Co. and Siliconware Precision Industries Co. Ltd. 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.

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 2011, 2010 and 2009, 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/packaging material set used in certain versions of our previous generation MCP, and GPU products used in notebook configurations and shipped after July 2008. 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 5,242 and 4,437 full-time employees as of April 29, 2012 and May 1, 2011, respectively. Research and development expenditures were $283.9 million and $231.5 million for the first quarter of fiscal years 2013 and 2012, respectively. 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 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 76% and 81% of our revenue for the first quarter of fiscal years 2013 and 2012, respectively, from sales to customers outside the United States and other Americas. As of April 29, 2012, we had 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;
- local business and cultural factors that differ from our normal standards and practices, including business practices that we are prohibited from engaging in by the Foreign Corrupt Practices Act (FCPA) and other anticorruption laws

and regulations;

- 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, cyber attack, 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 Canada, China, Hong Kong, Finland, France, Germany, 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.
Legal and regulatory requirements differ among jurisdictions worldwide. Violations of these laws and regulations could result in fines; criminal sanctions against us, our officers, or our employees; prohibitions on the conduct of our business; and damage to our reputation. Although we have policies, controls, and procedures designed to ensure compliance with foreign laws, many of these laws and regulations are ambiguous and are often interpreted and enforced in unpredictable ways.
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.
Our investment portfolio may become impaired by deterioration of the capital markets.
Our cash equivalent and marketable securities portfolio as of April 29, 2012 consisted of cash and cash equivalents, commercial paper, mortgage-backed securities issued by Government-sponsored enterprises, money market funds and debt securities of corporations, municipalities and the United States government and its agencies. We follow an established investment policy and set of guidelines, designed to preserve principal, minimize risk, monitor and help mitigate our exposure to interest rate and credit risk. The policy sets forth credit quality standards and limits our exposure to any one issuer, as well as our maximum exposure to various asset classes, variety of financial instruments, consisting principally of cash and cash equivalents, commercial paper, mortgage-backed securities issued by Government-sponsored enterprises, money market funds and debt securities of corporations, municipalities and the United States government and its agencies.
Should financial market conditions worsen in the future, investments in some financial instruments may pose risks arising from market liquidity and credit concerns. In addition, any deterioration of the capital markets could cause our other income and expense to vary from expectations. As of April 29, 2012, we had no material impairment charges associated with our short-term investment portfolio, and although we believe our current investment portfolio has very little risk of material impairment, we cannot predict future market conditions or market liquidity, or credit availability, and can provide no assurance that our investment portfolio will remain materially unimpaired.
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.
As of April 29, 2012, we recorded a total cumulative net warranty charge of $475.9 million, of which $466.4 million has been charged against cost of revenue, to cover anticipated customer warranty, repair, return, replacement and other costs arising from a weak die/packaging material set used in certain versions of our previous generation MCP and GPU products shipped after July 2008 and used in notebook configuration. 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. Although we

believe this issue has been nearly fully remediated, we remain committed 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 parties related to our acquisition of 3dfx in 2001. Please refer to Note 12 of the Notes to the Consolidated Financial Statements for further details on this lawsuit. 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. Throughout the period of President Obama's administration, the White House has proposed various international tax measures, 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, eliminate certain tax deductions until foreign earnings are repatriated to the United States and/or otherwise cause the total tax cost of U.S. multinational corporations to increase. 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 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.
On September 16, 2011, the Leahy-Smith America Invents Act, or the Leahy-Smith Act, was signed into law. The Leahy-Smith Act includes a number of significant changes to United States patent law. These include provisions that affect the way patent applications will be prosecuted and may also affect patent litigation. The United States Patent Office is currently developing regulations and procedures to govern administration of the Leahy-Smith Act, and many of the substantive changes to patent law associated with the Leahy-Smith Act will not become effective until one year or 18 months after its enactment. Accordingly, it is not clear what, if any, impact the Leahy-Smith Act will have on the operation of our business. However, the Leahy-Smith Act and its implementation could increase the uncertainties and costs surrounding the prosecution of our patent applications and the enforcement or defense of our issued patents, all of which could have a material adverse effect on our business and financial condition.

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 Securities and Exchange Commission, or 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 $35.6 million, and $31.7 million for the first quarter of fiscal years 2013 and 2012,

respectively, related to on-going vesting of equity awards, which negatively impacted 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 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, interim 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 Corporation 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

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 first quarter of fiscal year 2013. Through April 29, 2012, 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 April 29, 2012, we are authorized, subject to certain specifications, to repurchase shares of our common stock up to an additional amount of $1.24 billion through May 2013.

ITEM 5. OTHER INFORMATION

2012 Director Compensation

Effective with the 2012 Annual Meeting of Stockholders on May 17, 2012, or the 2012 Meeting, each non-employee member of our Board of Directors will receive the following compensation, or the 2012 Program, for their service until our 2013 Annual Meeting of Stockholders, or the 2013 Meeting:

Annual Board Retainer: The 2012 Program provides that each non-employee director will receive an annual board retainer with an aggregate value of $300,000 for his service as a non-employee director as follows:

- $75,000 (25%) in cash. The cash portion of the annual board retainer will be paid in four equal installments, on the first day of each three month period commencing with the date of the 2012 Meeting.
- $225,000 (75%) in equity. The equity portion of the annual board retainer, or the Annual Stock Retainer, will be in the form of restricted stock units, or RSUs, and/or non-statutory stock options, or Options, as determined below. The Annual Stock Retainer will be granted on the first trading day following the 2012 Meeting in accordance with, and subject to, the terms and conditions of our equity grant guidelines and under the terms of our 2007 Equity Incentive Plan and the applicable award agreements filed hereto as exhibits.

Allocation of Stock Retainer: Each non-employee director must elect to receive the Annual Stock Retainer: (i) 100% as RSUs, (ii) 100% as Options, or (iii) as a mix of 50% RSUs and 50% Options. In the absence of a timely election, the Annual Stock Retainer will be granted as 100% Options.

Vesting for Stock Retainer Awards: All RSUs and Options will be subject to vesting based on continuous service over the period starting on the date of the 2012 Meeting through May 15, 2013. The RSUs will vest in two equal installments and Options will vest in four equal installments over the service period.

Deferred Issuance of Shares under RSUs: Each non-employee director may also make an election (in a manner that complies with Section 409A of the Internal Revenue Code of 1986, as amended) to defer issuance of all of the shares of common stock that vest under the RSUs.

The forms of (i) Non-Employee Director Restricted Stock Unit (without deferral option), (ii) Non-Employee Director Restricted Stock Unit (with deferral option), and (iii) Non-Employee Director Stock Option Grant (2012 Annual Board Retainer) are attached hereto as Exhibits 10.2, 10.3 and 10.4, respectively.

Amended 2007 Plan

At the 2012 Meeting, our stockholders approved the amendment and restatement of the NVIDIA Corporation 2007 Equity Incentive Plan as the Amended 2007 Plan to, among other things, increase the number of shares of our common stock authorized for issuance under the Amended 2007 Plan by 25,000,000 shares and to extend the date of termination of the Amended 2007 Plan to March 21, 2022.

The NVIDIA Corporation 2007 Equity Incentive Plan, which provides for the grant of incentive stock options, nonstatutory stock options, restricted stock awards, restricted stock unit awards, stock appreciation rights, other stock awards and performance awards to our employees, directors and consultants, was originally approved by the Compensation Committee of our Board of Directors on April 24, 2007 and approved by our stockholders on June 21, 2007. On March 22, 2012, our Compensation Committee approved the Amended 2007 Plan, subject to approval by our stockholders. A more complete description of the Amended 2007 Plan may be found in our definitive proxy statement, filed with the SEC on April 4, 2012. That summary and the foregoing description are qualified in their entirety by reference to the text of the Amended 2007 Plan, which is filed as Exhibit 10.5 hereto and incorporated into this Item 5 by reference.

2012 Purchase Plan

At the 2012 Meeting, our stockholders also approved the NVIDIA Corporation 2012 Employee Stock Purchase Plan, or the 2012 Purchase Plan, which provides a means by which certain employees may be given an opportunity to purchase our common stock to attract, motivate, and retain the services of those individuals. The 2012 Purchase Plan is the successor to the NVIDIA Corporation 1998 Employee Stock Purchase Plan, or the 1998 Purchase Plan.

The total number of shares of our common stock reserved for issuance under the 2012 Purchase Plan will not exceed 55,432,333 shares, which represents the sum of (i) 32,000,000 newly requested shares, (ii) 8,432,333 shares that remained available for future offerings under the 1998 Purchase Plan as of May 17, 2012, the effective date of the 2012 Purchase Plan, and (iii) a maximum of 15,000,000 shares subject to outstanding purchase rights granted under the 1998 Purchase Plan that would otherwise have returned to the 1998 Purchase Plan (such as upon the cancellation or expiration of an outstanding purchase right), as such shares become available from time to time. If any purchase right granted under the 2012 Purchase Plan terminates without having been exercised, the shares of common stock not purchased under such purchase right will again become available for issuance under the 2012 Purchase Plan.

Shares of our common stock are offered under the 2012 Purchase Plan through a series of offering periods of such duration as determined by our Board of Directors or our Compensation Committee, each as a Plan Administrator, provided that in no event may an offering period exceed 27 months. The purchase price per share at which shares of our common stock are sold on each purchase date during an offering period will not be less than 85% of the lesser of (i) the fair market value per share of our common stock on that purchase date or (ii) the fair market value per share of our common stock on the first day of the offering period.

Generally, each regular employee (including officers) employed by us, by any of our parent or subsidiary companies designated by the Plan Administrator may participate in offerings under the 2012 Purchase Plan. However, no employee is eligible to participate in the 2012 Purchase Plan if, immediately after the grant of purchase rights, the employee would own, directly or indirectly, stock possessing 5% or more of the total combined voting power or value of all classes of our stock or of any of our parent or subsidiary companies, including any stock which such employee may purchase under all outstanding purchase rights and options. In addition, no employee may purchase more than $25,000 worth of our common stock, valued at the time each purchase right is granted, for each calendar year during which those purchase rights are outstanding.

The 2012 Purchase Plan was adopted by our Compensation Committee on March 22, 2012, subject to approval by our stockholders. A more complete description of the 2012 Purchase Plan may be found in our definitive proxy statement, filed with the SEC on April 4, 2012. That summary and the foregoing description are qualified in their entirety by reference to the text of the 2012 Purchase Plan, which is filed as Exhibit 10.6 hereto and incorporated into this Item 5 by reference.

Submission of Matters to a Vote of Security Holders

At the 2012 Meeting, the following proposals were adopted by the margin indicated. Proxies for the 2012 Meeting were solicited pursuant to Section 14(a) of the Securities Exchange Act, and there was no solicitation in opposition of management's solicitation.

1. The election of three (3) directors to serve for a one-year term until the 2013 Meeting. The results of the voting were as follows:

a.	Tench Coxe	
	Number of shares For	401,758,544
	Number of shares Withheld	1,243,270
	Number of shares Abstaining	10,525,325
	Number of Broker Non-Votes	92,712,062
b.	Mark L. Perry	
	Number of shares For	409,189,831
	Number of shares Withheld	1,209,743

	Number of shares Abstaining	3,127,565
	Number of Broker Non-Votes	92,712,062
c.	Mark A. Stevens	
	Number of shares For	402,813,057
	Number of shares Withheld	1,590,410
	Number of shares Abstaining	9,123,672
	Number of Broker Non-Votes	92,712,062

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The other directors whose term of office as a director continued after the 2012 Meeting are Robert K. Burgess, James C. Gaither, Jen-Hsun Huang, Harvey C. Jones, William J. Miller and A. Brooke Seawell.

2. The approval of the Amended 2007 Plan. The results of the voting were as follows:

Number of shares For	323,414,966
Number of shares Against	87,147,721
Number of shares Abstaining	2,964,452
Number of Broker Non-Votes	92,712,062

3. The approval of the 2012 Purchase Plan. The results of the voting were as follows:

Number of shares For	402,492,993
Number of shares Against	8,285,599
Number of shares Abstaining	2,748,547
Number of Broker Non-Votes	92,712,062

4. The approval, on an advisory basis, of the compensation of our named executive officers as disclosed in our 2012 proxy statement. The results of the voting were as follows:

Number of shares For	397,899,955
Number of shares Against	12,558,803
Number of shares Abstaining	3,068,381
Number of Broker Non-Votes	92,712,062

5. The ratification of the appointment of PricewaterhouseCoopers LLP as our independent registered accounting firm for our fiscal year ending January 27, 2013. The results of the voting were as follows:

Number of shares For	501,008,155
Number of shares Against	2,086,712
Number of shares Abstaining	3,144,334
Number of Broker Non-Votes	0

ITEM 6. EXHIBITS

EXHIBIT INDEX

Exhibit No.	Exhibit Description	Schedule /Form	File Number	Exhibit	Filing Date
10.1	NVIDIA Corporation Fiscal 2013 Variable Compensation Plan	8-K	000-23985		