Quanex Building Products CORP
Form 10-Q
June 03, 2015

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended April 30, 2015

OR

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

For the transition period from to

Commission File Number 1-33913

QUANEX BUILDING PRODUCTS CORPORATION
(Exact name of registrant as specified in its charter)

DELAWARE	26-1561397
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

1800 West Loop South, Suite 1500, Houston, Texas 77027
(Address of principal executive offices and zip code)
Registrant's telephone number, including area code: (713) 961-4600

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically 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 (Section 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 x No ¨

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 the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at May 29, 2015
Common Stock, par value $0.01 per share	33,871,310

QUANEX BUILDING PRODUCTS CORPORATION

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PART I. FINANCIAL INFORMATION
Item 1. Financial Statements
QUANEX BUILDING PRODUCTS CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

	April 30, 2015	October 31, 2014
	(In thousands, except share amounts)	
ASSETS		
Current assets:		
Cash and cash equivalents	$60,030	$120,384
Accounts receivable, net of allowance for doubtful accounts of $682 and $698	50,210	55,193
Inventories, net (Note 3)	62,994	57,358
Deferred income taxes (Note 8)	23,684	21,442
Prepaid and other current assets	5,433	6,052
Total current assets	202,351	260,429
Property, plant and equipment, net of accumulated depreciation of $209,485 and $200,414	111,113	109,487
Deferred income taxes (Note 8)	7,367	1,545
Goodwill (Note 4)	68,788	70,546
Intangible assets, net (Note 4)	65,648	70,150
Other assets	5,620	4,956
Total assets	$460,887	$517,113
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$36,328	$41,488
Accrued liabilities	26,006	32,482
Income taxes payable (Note 8)	—	107
Current maturities of long-term debt (Note 5)	179	199
Total current liabilities	62,513	74,276
Long-term debt (Note 5)	455	586
Deferred pension and postretirement benefits (Note 6)	5,949	4,818
Liability for uncertain tax positions (Note 8)	548	4,626
Other liabilities	11,174	11,887
Total liabilities	80,639	96,193
Commitments and contingencies (Note 9)		
Stockholders' equity:		
Preferred stock, no par value, shares authorized 1,000,000; issued and outstanding - none	—	—
Common stock, $0.01 par value, shares authorized 125,000,000; issued 37,622,163 and 37,632,032, respectively; outstanding 33,871,310 and 36,214,332, respectively	376	376
Additional paid-in-capital	250,106	249,600
Retained earnings	208,020	202,319
Accumulated other comprehensive loss	(8,210)	(5,708)
Less: Treasury stock at cost, 3,750,853 and 1,417,700 shares, respectively	(70,044)	(25,667)
Total stockholders' equity	380,248	420,920
Total liabilities and stockholders' equity	$460,887	$517,113

The accompanying notes are an integral part of the financial statements.

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QUANEX BUILDING PRODUCTS CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF INCOME (LOSS)
(Unaudited)

	Three Months Ended April 30,		Six Months Ended April 30,	
	2015	2014	2015	2014
	(In thousands, except per share amounts)			
Net sales	$141,970	$135,208	$269,863	$261,587
Cost and expenses:				
Cost of sales (excluding depreciation and amortization)	110,812	108,649	216,616	204,838
Selling, general and administrative	19,638	20,393	39,134	42,895
Depreciation and amortization	7,831	8,494	16,039	17,038
Asset impairment charges	—	500	—	505
Operating income (loss)	3,689	(2,828)	(1,926)	(3,689)
Non-operating income (expense):				
Interest expense	(145)	(143)	(286)	(284)
Other, net	(115)	(22)	(266)	74
Income (loss) from continuing operations before income taxes	3,429	(2,993)	(2,478)	(3,899)
Income tax (expense) benefit	(1,135)	963	1,678	658
Income (loss) from continuing operations	2,294	(2,030)	(800)	(3,241)
Income from discontinued operations, net of tax of $0, $13,481, $15 and $11,902, respectively	—	22,161	23	19,472
Net income (loss)	$2,294	$20,131	$(777)	$16,231
Basic income (loss) per common share:				
From continuing operations	$0.07	$(0.05)	$(0.02)	$(0.09)
From discontinued operations	—	0.59	—	0.53
Income (loss) per share, basic	$0.07	$0.54	$(0.02)	$0.44
Diluted income (loss) per common share:				
From continuing operations	$0.07	$(0.05)	$(0.02)	$(0.09)
From discontinued operations	—	0.58	—	0.52
Income (loss) per share, diluted	$0.07	$0.53	$(0.02)	$0.43
Weighted-average common shares outstanding:				
Basic	33,621	37,217	34,362	37,108
Diluted	34,166	37,838	34,362	37,726
Cash dividends per share	$0.04	$0.04	$0.08	$0.08

The accompanying notes are an integral part of the financial statements.

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QUANEX BUILDING PRODUCTS CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(Unaudited)

	Three Months Ended April 30,		Six Months Ended April 30,	
	2015	2014	2015	2014
	(In thousands)			
Net income (loss)	$2,294	$20,131	$(777)	$16,231
Other comprehensive income (loss):				
Foreign currency translation adjustments gain (loss) (pretax)	277	1,227	(2,572)	1,282
Foreign currency translation adjustments tax benefit	—	—	—	14
Change in pension from net unamortized gain adjustment (pretax)	—	—	—	122
Change in pension from net unamortized gain tax benefit	41	—	70	—
Other comprehensive income (loss), net of tax	318	1,227	(2,502)	1,418
Comprehensive income (loss)	$2,612	$21,358	$(3,279)	$17,649

The accompanying notes are an integral part of the financial statements.

QUANEX BUILDING PRODUCTS CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOW
(Unaudited)

	Six Months Ended April 30, 2015	2014
	(In thousands)	
Operating activities:		
Net (loss) income	$(777)	$16,231
Adjustments to reconcile net (loss) income to cash used for operating activities:		
Depreciation and amortization	16,039	20,078
Stock-based compensation	2,329	1,944
Deferred income tax (benefit) provision	(2,963)	8,128
Excess tax benefit from share-based compensation	(60)	(639)
Asset impairment charges	—	1,007
Gain on sale of discontinued operations	—	(39,645)
Other, net	(447)	1,427
Changes in assets and liabilities, net of effects from acquisitions:		
Decrease in accounts receivable	4,553	3,964
Increase in inventory	(6,047)	(22,834)
Decrease (increase) in other current assets	601	(583)
(Decrease) increase in accounts payable	(5,799)	10,127
Decrease in accrued liabilities	(5,253)	(6,234)
Increase in income taxes payable	260	1,667
Increase in deferred pension and postretirement benefits	1,201	297
Decrease in other long-term liabilities	(128)	(3,539)
Other, net	(201)	(2,419)
Cash provided by (used for) operating activities	3,308	(11,023)
Investing activities:		
Net proceeds from sale of discontinued operations	—	110,000
Acquisitions, net of cash acquired	—	(5,161)
Capital expenditures	(13,381)	(18,597)
Proceeds from property insurance claim	513	1,400
Proceeds from disposition of capital assets	202	304
Cash (used for) provided by investing activities	(12,666)	87,946
Financing activities:		
Repayments of other long-term debt	(148)	(144)
Common stock dividends paid	(2,803)	(2,989)
Issuance of common stock	4,181	2,882
Excess tax benefit from share-based compensation	60	639
Purchase of treasury stock	(52,719)	—
Other	—	35
Cash (used for) provided by financing activities	(51,429)	423
Effect of exchange rate changes on cash and cash equivalents	433	(96)
(Decrease) increase in cash and cash equivalents	(60,354)	77,250
Cash and cash equivalents at beginning of period	120,384	49,734
Cash and cash equivalents at end of period	$60,030	$126,984

The accompanying notes are an integral part of the financial statements.

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QUANEX BUILDING PRODUCTS CORPORATION
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
(Unaudited)

Six Months Ended April 30, 2015	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total Stockholders' Equity
	(In thousands, no per share amounts shown except in verbiage)					
Balance at October 31, 2014	$376	$249,600	$202,319	$ (5,708)	$(25,667)	$ 420,920
Net loss	—	—	(777)	—	—	(777)
Foreign currency translation adjustment	—	—	—	(2,572)	—	(2,572)
Common dividends ($0.08 per share)	—	—	(2,803)	—	—	(2,803)
Purchase of treasury stock	—	—	—	—	(50,761)	(50,761)
Stock-based compensation activity:						
Expense related to stock-based compensation	—	2,329	—	—	—	2,329
Stock options exercised	—	(246)	(680)	—	5,107	4,181
Tax benefit from share-based compensation	—	(146)	—	—	—	(146)
Restricted stock awards granted	—	(1,277)	—	—	1,277	—
Recognition of unrecognized tax benefit (Note 8)	—	—	10,003	—	—	10,003
Other	—	(154)	(42)	70	—	(126)
Balance at April 30, 2015	$376	$250,106	$208,020	$ (8,210)	$(70,044)	$ 380,248

The accompanying notes are an integral part of the financial statements.

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QUANEX BUILDING PRODUCTS CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Nature of Operations and Basis of Presentation

Quanex Building Products Corporation manufactures components primarily for the window and door (fenestration) industry, which include (1) energy-efficient flexible insulating glass spacers, (2) extruded vinyl profiles, (3) window and door screens, and (4) precision-formed metal and wood products for original equipment manufacturers (OEMs), as well as certain non-fenestration components, which include solar panel sealants, wood flooring and trim moldings. Quanex Building Products Corporation serves a primary customer base in North America and also serves customers in international markets through operating plants in the United Kingdom and Germany, as well as through sales and marketing efforts in other countries.

Unless the context indicates otherwise, references to "Quanex", the "Company", "we", "us" and "our" refer to the consolidated business operations of Quanex Building Products Corporation and its subsidiaries.

The accompanying interim condensed consolidated financial statements include the accounts of Quanex Building Products Corporation. All intercompany accounts and transactions have been eliminated in consolidation. These financial statements have been prepared by us, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) have been condensed or omitted pursuant to such rules and regulations. The consolidated balance sheet as of October 31, 2014 was derived from audited financial information, but does not include all disclosures required by U.S. GAAP. The accompanying financial statements should be read in conjunction with the audited consolidated financial statements and the notes thereto, included in our Annual Report on Form 10-K for the fiscal year ended October 31, 2014. In our opinion, the accompanying financial statements contain all adjustments (which consist of normal recurring adjustments, except as disclosed herein) necessary to fairly present our financial position, results of operations and cash flows for the interim periods. The results of operations for the periods presented are not necessarily indicative of the results to be expected for the full year or for any future periods.

In preparing financial statements, we make informed judgments and estimates that affect the reported amounts of assets and liabilities as of the date of the financial statements and affect the reported amounts of revenues and expenses during the reporting period. We review our estimates on an on-going basis, including those related to impairment of long lived assets and goodwill, contingencies and income taxes. Changes in facts and circumstances may result in revised estimates and actual results may differ from these estimates.

Discontinued Operations

Prior to April 1, 2014, we had two reportable business segments: (1) Engineered Products and (2) Aluminum Sheet Products. On April 1, 2014, we sold our interest in a limited liability company which held the assets of the Nichols Aluminum business (Nichols), the sole operating segment included in our Aluminum Sheet Products reportable segment, to Aleris International, Inc.

(Aleris), a privately held Delaware corporation which provides aluminum rolled products and extrusions, aluminum recycling and specification aluminum alloy production. We received gross proceeds of $110.0 million, which was reduced to $107.4 million, reflecting a net working capital adjustment of $2.6 million that we paid in June 2014, resulting in a net gain on the transaction of $24.1 million, net of related taxes of $15.1 million.

Nichols represented a significant portion of our assets and operations. We accounted for this sale as a discontinued operation. We revised our financial statements and removed the results of operations of Nichols from net income (loss) from continuing operations, and presented separately as income (loss) from discontinued operations, net of taxes, for each of the accompanying condensed consolidated statements of income (loss). Unless noted otherwise, the notes to the consolidated financial statements pertain to our continuing operations.

For cash flow statement presentation, the sources and uses of cash for Nichols are presented as operating, investing and financing cash flows, as applicable, combined with such cash flows for continuing operations for the period from November 1, 2013 to April 1, 2014, as permitted by U.S. GAAP.

We have historically purchased rolled aluminum product from Nichols. We expect to continue to purchase aluminum from Nichols in the normal course of business. We considered whether these aluminum purchases and the services provided under a transition services agreement for the period from April 1, 2014 to May 31, 2014 constituted significant continuing involvement with Nichols. Since these purchases were in the normal course of business and the services provided were for a relatively short period and are customary for similar transactions, we determined that this involvement was not deemed significant and did not preclude accounting for the transaction as a discontinued operation. Our purchases of aluminum product from Nichols for the three- and six-month periods ended April 30, 2015 and 2014 were $1.6 million and $6.2 million, respectively, and $3.3 million and $6.8 million, respectively.

In November 2013, Nichols experienced a fire at its Decatur, Alabama facility, which damaged a cold mill used to roll aluminum sheet to a desired thickness. The loss was insured, subject to a $0.5 million deductible. We capitalized $6.5 million to rebuild the asset, which was returned to service as of March 31, 2014. We incurred costs of $2.3 million associated with this loss, including an impairment of $0.5 million related to retirement of the asset, moving costs, outside service costs, clean-up and the deductible. To date, we have received insurance proceeds of $5.3 million. We have reduced our estimate of total insurance proceeds expected related to this loss to approximately $6.3 million, resulting in an expected gain on involuntary conversion of $3.9 million of which we have recognized $2.9 million. We estimate the remaining pretax gain on involuntary conversion at $1.0 million and that this gain will be recognized during fiscal 2015, when and to the extent that insurance proceeds are received, which will result in an increase in income from discontinued operations, net of tax.

Income from discontinued operations for the six months ended April 30, 2015 reflects the receipt of insurance proceeds of $0.5 million, less approximately $0.5 million associated with a health insurance claim amount reimbursable to the stop-loss insurance provider.

The following table summarizes the operating results for Nichols, which was sold on April 1, 2014, included in the three- and six-month periods ended April 30, 2014:

	Three Months Ended	Six Months Ended
	April 30, 2014	
	(In thousands, except per share amounts)	
Net sales	$63,306	$142,797
Operating loss	(4,931)	(9,182)
Loss before income taxes and gain on sale	(4,003)	(8,271)
Income tax benefit	1,584	3,163
Gain on sale, net of tax of $15,065 and $15,065, respectively	24,580	24,580
Net income	$22,161	$19,472
Basic income per common share	$0.59	$0.53
Diluted income per common share	$0.58	$0.52

Product Sales

We produce a wide variety of products that are used in the fenestration industry, including: window and door systems design, engineering and fabrication; accessory trim profiles with real wood veneers and wood grain laminate finishes; window spacer systems; extruded vinyl products; metal fabrication; and astragals, thresholds and screens. In addition, we produce certain non-fenestration products, including: wood and aluminum grilles, flooring and trim moldings, solar edge tape and other products. Historically, we have presented product sales information at the reportable segment level, and we attribute our net sales based on the location of the customer. We have four operating segments that are aggregated into one reportable segment, which includes this breadth of product offerings across the fenestration and non-fenestration spectrum, but for which there are common economic and other characteristics that meet the criteria for aggregation.

ASC Topic 280-10-50, “Segment Reporting” (ASC 280) permits aggregation of operating segments based on factors including, but not limited to: (1) similar nature of products serving the building products industry, primarily the fenestration business; (2) similar production processes, although there are some differences in the amount of automation amongst operating plants; (3) similar types or classes of customers, namely the primary original equipment manufacturers (OEMs) in the window and door industry; (4) similar distribution methods for product

delivery, although the extent of the use of third-party distributors will vary amongst the businesses; (5) similar regulatory environment; and (6) converging long-term economic similarities.
The following table summarizes our product sales for the three- and six-month periods ended April 30, 2015 and 2014 into general groupings to provide additional information to our shareholders.

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QUANEX BUILDING PRODUCTS CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

	Three Months Ended April 30,		Six Months Ended April 30,	
	2015	2014	2015	2014
Product Group:	(In thousands)			
United States - fenestration	$106,601	$98,501	$202,792	$195,924
International - fenestration	20,213	24,759	37,989	43,382
United States - non-fenestration	11,660	9,179	21,134	16,371
International - non-fenestration	3,496	2,769	7,948	5,910
Net sales	$141,970	$135,208	$269,863	$261,587

2. Acquisitions
On December 31, 2013, we acquired certain vinyl extrusion assets of Atrium Windows and Doors, Inc. (Atrium) at a facility in Greenville, Texas, for $5.2 million in cash (Greenville). We accounted for this transaction as a business combination resulting in an insignificant gain on the purchase. We entered into a supply agreement with Atrium related to the products produced at Greenville. We believe this acquisition expanded our vinyl extrusion capacity and positioned us with a platform from which to better serve our customers in the southern United States.
The purchase price has been allocated to the fair value of the assets acquired and liabilities assumed, as indicated in the table below.

	As of Date of Opening Balance Sheet (In thousands)
Net assets acquired:	
Inventories	$161
Prepaid and other current assets	145
Property, plant and equipment	4,695
Intangible assets	290
Deferred income tax liability	(50)
Net assets acquired	$5,241
Consideration:	
Cash, net of cash and cash equivalents acquired	$5,161
Gain recognized on bargain purchase	$80

We used recognized valuation techniques to determine the fair value of the assets and liabilities, including the income approach for customer relationships, with a discount rate that reflects the risk of the expected future cash flows. The gain on bargain purchase of approximately $0.1 million is included in "Other, net" on our condensed consolidated statement of income (loss) for the six months ended April 30, 2014.
Pro forma results of operations were omitted because this acquisition was not deemed to be material to our results of operations for the six months ended April 30, 2014.
3. Inventories
Inventories consisted of the following at April 30, 2015 and October 31, 2014:

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QUANEX BUILDING PRODUCTS CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

	April 30, 2015	October 31, 2014
	(In thousands)	
Raw materials	$39,928	$36,751
Finished goods and work in process	29,126	25,558
Supplies and other	1,225	806
Total	70,279	63,115
Less: Inventory reserves	7,285	5,757
Inventories, net	$62,994	$57,358

Fixed costs related to excess manufacturing capacity, if any, have been expensed in the period they were incurred and, therefore, are not capitalized into inventory.

Our inventories at April 30, 2015 and October 31, 2014 were valued using the following costing methods:

	April 30, 2015	October 31, 2014
	(In thousands)	
LIFO	$6,048	$5,122
FIFO	56,946	52,236
Total	$62,994	$57,358

During interim periods, we estimate a LIFO reserve based on our expectations of year-end inventory levels and costs. If our calculations indicate that an adjustment at year-end will be required, we record a proportionate share of this amount during the period. At year-end, we calculate the actual LIFO reserve and record an adjustment for the difference between the annual calculation and any estimates recognized during the interim periods. Because the interim projections are subject to many factors beyond our control, the results could differ significantly from the year-end LIFO calculation. We recorded no interim LIFO reserve adjustment for the three- and six-month periods ended April 30, 2015 and 2014.

For inventories valued under the LIFO method, replacement cost exceeded the LIFO value by approximately $1.4 million at April 30, 2015 and October 31, 2014.

4. Goodwill and Intangible Assets

Goodwill

The change in the carrying amount of goodwill for the six months ended April 30, 2015 was as follows:

	Six Months Ended April 30, 2015	
	(In thousands)	
Beginning balance as of November 1, 2014	70,546	
Foreign currency translation adjustment	(1,758	)
Balance as of the end of the period	$68,788	

During the fourth quarter of 2014, we evaluated our goodwill balances for indicators of impairment and performed an annual goodwill impairment test to determine the recoverability of these assets. Three of our reporting units had goodwill at October 31, 2014 which totaled $55.2 million, $12.6 million and $2.8 million. We determined that our goodwill was not impaired and there have been no triggering events to indicate impairment during the six months ended April 30, 2015, so no additional testing was deemed necessary.

Identifiable Intangible Assets

Amortizable intangible assets consisted of the following as of April 30, 2015 and October 31, 2014:

	April 30, 2015		October 31, 2014	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
	(In thousands)			
Customer relationships	$53,083	$21,745	$53,083	$19,700
Trademarks and trade names	44,722	21,712	44,722	20,343
Patents and other technology	25,244	14,177	25,244	13,228
Other	1,392	1,159	1,392	1,020
Total	$124,441	$58,793	$124,441	$54,291

We do not estimate a residual value associated with these intangible assets. Included in intangible assets as of April 30, 2015 were customer relationships of $0.2 million associated with the Greenville acquisition. These assets have estimated remaining useful lives of four years. See Note 2, "Acquisitions", included herewith.

For the three- and six-month periods ended April 30, 2015 and 2014, we had aggregate amortization expense of $2.2 million and $4.5 million, respectively, and $2.3 million and $4.6 million, respectively.

Estimated remaining amortization expense, assuming current intangible balances and no new acquisitions, for each of the fiscal years ending October 31, was as follows (in thousands):

	Estimated Amortization Expense
2015 (remaining six months)	$4,612
2016	8,713
2017	8,607
2018	8,360
2019	7,571
Thereafter	27,785
Total	$65,648

5. Debt and Capital Lease Obligations

Debt consisted of the following at April 30, 2015 and October 31, 2014:

	April 30, 2015	October 31, 2014
	(In thousands)	
Revolving Credit Facility	$—	$—
City of Richmond, Kentucky Industrial Building Revenue Bonds	500	600
Capital lease obligations	134	185
Total debt	634	785
Less: Current maturities of long-term debt	179	199
Long-term debt	$455	$586

On January 28, 2013, we entered into a Senior Unsecured Revolving Credit Facility (the Credit Facility) that has a five-year term and permits aggregate borrowings at any time of up to $150.0 million, with a letter of credit sub-facility, a swing line sub-facility and a multi-currency sub-facility. Borrowings denominated in United States dollars bear interest at a spread above the London Interbank Borrowing Rate (LIBOR) or a base rate derived from the prime rate. Foreign denominated borrowings bear interest at a spread above the LIBOR applicable to such currencies. Subject to customary conditions, we may request that the aggregate commitments under the Credit Facility be increased by up to $100.0 million, with total commitments not to exceed $250.0 million.

The Credit Facility requires us to comply with certain financial covenants, the terms of which are defined therein. Specifically, we must not permit, on a quarterly basis, our ratio of consolidated EBITDA to consolidated interest expense as defined (Minimum Interest Coverage Ratio), to fall below 3.00:1 or our ratio of consolidated funded debt to consolidated EBITDA, as defined (Maximum Consolidated Leverage Ratio), to exceed 3.25:1. The Maximum Consolidated Leverage Ratio is the ratio of consolidated EBITDA to consolidated interest expense, in each case for the previous four consecutive fiscal quarters. EBITDA is defined by the indenture to include pro forma EBITDA of acquisitions and to exclude certain items such as goodwill and intangible asset impairments and certain other non-cash charges and non-recurring items. Subject to our compliance with the covenant requirements, the amount available under the Credit Facility is a function of: (1) our trailing twelve-month EBITDA; (2) the Minimum Interest Coverage Ratio and Maximum Consolidated Leverage Ratio allowed under the Credit Facility; and (3) the aggregate amount of our outstanding debt and letters of credit. As of April 30, 2015, we were in compliance with the financial covenants set forth in the Credit Facility.

As of April 30, 2015, the amount available to us for use under the Credit Facility was $143.4 million and we had outstanding letters of credit of $5.9 million. For the six-month period ended April 30, 2015, we did not borrow any amounts under the Credit Facility, and thus had no outstanding borrowings at April 30, 2015. Our current borrowing rate under the Credit Facility was 3.25% and 1.20% for the swing-line sub facility and the revolver, respectively, at April 30, 2015. As of October 31, 2014, the amount available to us for use under the Credit Facility was $140.7 million and we had outstanding letters of credit of $6.1 million. Our borrowing rate under the Credit Facility was 3.25% and 1.20% for the swing-line sub facility and the revolver, respectively, at October 31, 2014.

6. Retirement Plans

Pension Plan

Our non-contributory, single employer defined benefit pension plan covers a majority of our employees. Employees of acquired companies may be covered after a transitional period. The net periodic pension cost for this plan for the three- and six-month periods ended April 30, 2015 and 2014 was as follows:

	Three Months Ended April 30,		Six Months Ended April 30,	
	2015	2014	2015	2014
	(In thousands)			
Service cost	$802	$737	$1,683	$1,657
Interest cost	257	269	510	532
Expected return on plan assets	(443)	(438)	(904)	(861)
Amortization of net loss	40	—	79	—
Net periodic benefit cost	$656	$568	$1,368	$1,328

During 2014, we contributed approximately $4.1 million to fund our plan, and we expect to make a contribution to our plan in September 2015.

Other Plans

We also have a supplemental benefit plan covering certain executive officers and a non-qualified deferred compensation plan covering members of the Board of Directors and certain key employees. As of April 30, 2015 and October 31, 2014, our liability under the supplemental benefit plan was approximately $1.8 million and $1.9 million, respectively, and under the deferred compensation plan was approximately $3.4 million for both periods. In January

2014, we paid $3.3 million related to the deferred compensation plan as a result of the separation of our former chief executive officer in July 2013. We record the current portion of liabilities under these plans under the caption "Accrued Liabilities," and the long-term portion under the caption "Other Liabilities" in the accompanying balance sheets.

7. Warranty Obligations

We accrue warranty obligations as we recognize revenue associated with certain products. We make provisions for our warranty obligations based upon historical experience of costs incurred for such obligations adjusted, as necessary, for current conditions and factors. During January 2014, we reduced our warranty accrual by $2.8 million for certain products associated with our insulating glass business that were discontinued in a prior year and for which claim activity for a particular customer had ceased. There are significant uncertainties and judgments involved in estimating our warranty obligations, including changing product designs, differences in customer installation processes and future claims experience which may vary from historical claims experience. Therefore, the ultimate amount we incur as warranty costs in the near and long-term may not be consistent with our current estimate.

A reconciliation of the activity related to our accrued warranty, including both the current and long-term portions (reported in accrued liabilities and other liabilities, respectively, on the accompanying condensed consolidated balance sheet) follows:

	Six Months Ended April 30, 2015 (In thousands)
Beginning balance as of November 1, 2014	$671
Provision for warranty expense	263
Change in accrual for preexisting warranties	99
Warranty costs paid	(124)
Total accrued warranty as of the end of the period	$909
Less: Current portion of accrued warranty	678
Long-term portion of accrued warranty	$231

The increase in the warranty provision during the six months ended April 30, 2015 was primarily attributable to a specific claim related to our vinyl extrusion products stemming from a change in formulation.

8. Income Taxes

To determine our income tax expense for interim periods, consistent with accounting standards, we apply the estimated annual effective income tax rate to year-to-date results. Our estimated annual effective tax rates from continuing operations for the six months ended April 30, 2015 and 2014 were a benefit of 67.7% and 16.9%, respectively. The increase in the 2015 effective tax rate is attributable to a discrete benefit item resulting from the reassessment of our uncertain tax position related to the 2008 spin-off of Quanex from a predecessor company in January 2015. Excluding this item, the effective tax rate was 35.5%. The 2014 effective rate was impacted by a change in the tax status of our facility in the United Kingdom (UK). On November 1, 2013, the assets of our UK branch were contributed to a newly formed wholly-owned UK subsidiary. This change resulted in a U.S. taxable charge that was booked as a discrete item in the first quarter of 2014. Excluding this discrete item, the 2014 effective tax rate was a benefit of 33.6%.

As of April 30, 2015, our unrecognized tax benefit (UTB) relates to certain state tax items regarding the interpretation of tax laws and regulations. The total UTB at October 31, 2014 included the UTB associated with the 2008 spin-off and totaled $11.4 million. Of this amount, $4.6 million was recorded as a liability for uncertain tax positions and $6.8 million was recorded as deferred income taxes (non-current assets) on the accompanying condensed consolidated balance sheet. In January 2015, we reassessed our unrecognized tax benefit related to the 2008 spin-off of Quanex from a predecessor company and recognized the full benefit of the tax positions taken. This reduced the liability for uncertain tax positions by $4.0 million and increased deferred income taxes (non-current assets) by $6.8 million and resulted in a non-cash increase in retained earnings of $10.0 million, with an increase in income tax benefit of $0.8 million. At April 30, 2015, $0.5 million is recorded as a liability for uncertain tax positions. The disallowance of the UTB would not materially affect the annual effective tax rate.

We evaluate the likelihood of realization of our deferred tax assets by considering both positive and negative evidence. We believe there is no need for a valuation allowance of the federal net operating losses. We will continue to evaluate our position throughout the year. We maintain a valuation allowance for certain state net operating losses which totaled $1.4 million at April 30, 2015.

Judgment is required in assessing the future tax consequences of events that have been recognized in our financial statements or tax returns. The final outcome of the future tax consequences of legal proceedings, if any, as well as the outcome of competent authority proceedings, changes in regulatory tax laws, or interpretation of those tax laws could impact our financial statements. We are subject to the effect of these matters occurring in various jurisdictions. We do not believe any of the UTB at April 30, 2015 will be recognized within the next twelve months.

Our federal income tax returns for the tax years ended October 31, 2011 and 2012 were examined by the Internal Revenue Service and no adjustments were made.

9. Contingencies

Environmental

We are subject to extensive laws and regulations concerning the discharge of materials into the environment and the remediation of chemical contamination. We accrue our best estimates of our remediation obligations and adjust these accruals when further information becomes available or circumstances change.

We are currently not subject to any remediation activities. Prior to April 1, 2014, we had remediation activities associated with one of our subsidiaries, Nichols Aluminum-Alabama, LLC, a component business unit of Nichols. As discussed in Note 1, "Nature of Operations and Basis of Presentation - Discontinued Operations", on April 1, 2014, we sold Nichols and the liabilities associated with this on-going remediation effort were assumed by Aleris International, Inc.

Spacer Migration

We were notified by certain customers through our German operation that the vapor barrier employed on certain spacer products manufactured prior to March 2014 may fail and permit spacer migration in certain extreme circumstances. This product does not have a specific customer warranty, but we have received claims from customers related to this issue, which we continue to investigate. We incurred expense of $1.8 million during 2014 associated with this issue, including an accrual of $1.2 million at October 31, 2014 for any asserted claim that we deem to be reasonably possible and estimable. The balance of this accrual at April 30, 2015 was $1.0 million, reflecting net claim payments of $0.3 million, additional claims received of approximately $0.2 million, and a translation adjustment of approximately $0.1 million. We cannot estimate any future liability with regard to unasserted claims. We will investigate any future claims, but we are not obligated to honor any future claims.

Affordable Care Act

We are subject to the employer-shared responsibility requirements (more commonly referred to as the employer mandate) of the Affordable Care Act (ACA). The employer mandate requires us to offer health care insurance that meets minimum value and affordability requirements to our full-time employees and certain potential common law employees within a specified coverage threshold. Effective January 1, 2015, and for the calendar year ended December 31, 2015, we may be subject to a penalty in the form of an excise tax under the ACA if we do not meet these requirements. Furthermore, we must comply with the annual disclosure and reporting requirements. We are evaluating these requirements and implementing mechanisms to achieve compliance.

Litigation

From time to time, we, along with our subsidiaries, are involved in various litigation matters arising in the ordinary course of our business. Although the ultimate resolution and impact of such litigation is not presently determinable, we believe that the eventual outcome of such litigation will not have a material adverse effect on our overall financial condition, results of operations or cash flows.

10. Derivative Instruments

Our derivative activities are subject to the management, direction, and control of the Chief Financial Officer and Chief Executive Officer. Certain transactions in excess of specified levels require further approval from the Board of Directors.

The nature of our business activities requires the management of various financial and market risks, including those related to changes in foreign currency exchange rates. We have historically used foreign currency forwards and options to mitigate or eliminate certain of those risks at our subsidiaries. We use foreign currency contracts to offset fluctuations in the value of accounts receivable and accounts payable balances that are denominated in currencies other than the United States dollar, including the Euro, British Pound and Canadian Dollar. Currently, we do not enter into derivative transactions for speculative or trading purposes. We are exposed to credit loss in the event of nonperformance by the counterparties to our derivative transactions. We attempt to mitigate this risk by monitoring the creditworthiness of our counterparties and limiting our exposure to individual counterparties. In addition, we have established master netting agreements in certain cases to facilitate the settlement of gains and losses on specific derivative contracts.

We have not designated any of our derivative contracts as hedges for accounting purposes in accordance with the provisions under the Accounting Standards Codification topic 815 "Derivatives and Hedging" (ASC 815). Therefore, changes in the fair value of these contracts and the realized gains and losses are recorded in the condensed consolidated statements of income (loss) for the three- and six-month periods ended April 30, 2015 and 2014 as follows (in thousands):

		Three Months Ended April 30,		Six Months Ended April 30,	
Location of (Loss) Gain:		2015	2014	2015	2014
Other, net	Foreign currency derivatives	$(38)	$(208)	$614	$(94)

We have chosen not to offset any of our derivative instruments in accordance with the provisions of ASC 815. Therefore, the assets and liabilities are presented on a gross basis on our accompanying condensed consolidated balance sheets.

The fair values of our outstanding derivative contracts as of April 30, 2015 and October 31, 2014 were as follows (in thousands):

	April 30, 2015	October 31, 2014
Prepaid and other current assets:		
Foreign currency derivatives	$298	$69
Accrued liabilities:		
Foreign currency derivatives	$(2)	$—

The following table summarizes the notional amounts and fair value of outstanding derivative contracts at April 30, 2015 and October 31, 2014 (in thousands):

		Notional as indicated		Fair Value in $	
		April 30, 2015	October 31, 2014	April 30, 2015	October 31, 2014
Foreign currency derivatives:					
Sell EUR, buy USD	EUR	7,555	$4,907	$289	$68
Sell CAD, buy USD	CAD	296	331	2	1
Sell GBP, buy USD	GBP	267	—	6	—
Buy EUR, sell GBP	EUR	97	—	(2)	—
Buy USD, sell EUR	USD	23	—	1	—
Buy GBP, sell EUR	GBP	5	—	$—	—

For the classification in the fair value hierarchy, see Note 11, "Fair Value Measurement of Assets and Liabilities", included herewith.

11. Fair Value Measurement of Assets and Liabilities

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value hierarchy distinguishes between (1) market participant assumptions developed based on market data obtained from independent sources (observable inputs) and (2) an entity's own assumptions about market participant assumptions developed based on the best information available in the circumstances (unobservable inputs). The fair value hierarchy consists of three broad levels, which gives the highest priority to Level 1 and the lowest priority to Level 3. The three levels of the fair value hierarchy are described below:

- Level 1 - Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.
-

Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly or indirectly including quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; inputs other than quoted prices that are observable for the asset or liability (e.g., interest rates) and inputs that are derived principally from or corroborated by observable market data by correlation or other means.

- Level 3 - Inputs that are both significant to the fair value measurement and unobservable.

The following table summarizes the assets and liabilities measured on a recurring basis based on the fair value hierarchy (in thousands):

	April 30, 2015				October 31, 2014			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets								
Short-term investments	$10,000	$—	$—	$10,000	$69,975	$—	$—	$69,975
Foreign currency derivatives	—	298	—	298	—	69	—	69
Total assets	$10,000	$298	$—	$10,298	$69,975	$69	$—	$70,044
Liabilities								
Foreign currency derivatives	$—	$2	$—	$2	$—	$—	$—	$—
Total liabilities	$—	$2	$—	$2	$—	$—	$—	$—

We held short-term investments (with an original maturity of three months or less) in commercial paper at April 30, 2015 and October 31, 2014. We have included these investments as cash and cash equivalents in the accompanying condensed consolidated balance sheets. These investments are measured at fair value based on active market quotations and are therefore classified as Level 1. All of our derivative contracts are valued using quoted market prices from brokers or exchanges and are classified within Level 2 of the fair value hierarchy.

We had approximately $2.4 million of certain property, plant and equipment that was recorded at fair value on a non-recurring basis and classified as Level 3 as of April 30, 2015 and October 31, 2014. The fair value was based on broker opinions.

Carrying amounts reported on the balance sheet for cash, cash equivalents, accounts receivable and accounts payable approximate fair value due to the short-term maturity of these instruments. Our outstanding debt was variable rate debt that re-prices frequently, thereby limiting our exposure to significant change in interest rate risk. As a result, the fair value of our debt instruments approximates carrying value at April 30, 2015 and October 31, 2014 (Level 3 measurement).

12. Stock-Based Compensation

We have established and maintain an Omnibus Incentive Plan (2008 Plan) that provides for the granting of restricted stock awards, stock options, restricted stock units, performance share awards and other stock-based and cash-based awards. The 2008 Plan is administered by the Compensation and Management Development Committee of the Board of Directors.

The aggregate number of shares of common stock originally authorized for grant under the 2008 Plan was 2,900,000. In February 2011 and February 2014, shareholders approved an increase of the aggregate shares available for grant by 2,400,000 shares and 2,350,000 shares, respectively. Any officer, key employee and/or non-employee director is eligible for awards under the 2008 Plan. Our practice is to grant stock options and restricted stock units to non-employee directors on the last business day of each fiscal year, with an additional grant of options to each director on the date of his or her first anniversary of service. Once we receive approval from the Board of Directors in December, we grant stock options, restricted stock awards, restricted stock units and/or performance shares to officers, management and key employees. Occasionally, we may make additional grants to key employees at other times during the year.

Restricted Stock Awards

Restricted stock awards are granted to key employees and officers annually, and typically cliff vest over a three-year period with service and continued employment as the only vesting criteria. The recipient of the restricted stock awards is entitled to all of the rights of a shareholder, except that the awards are nontransferable during the vesting period. The fair value of the restricted stock award is established on the grant date and then expensed over the vesting period resulting in an increase in additional paid-in-capital. Shares are generally issued from treasury stock at the time of grant.

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A summary of non-vested restricted stock awards activity during the six months ended April 30, 2015 is presented below:

	Restricted Stock Awards	Weighted Average Grant Date Fair Value per Share
Non-vested at October 31, 2014	220,800	$17.42
Granted	68,800	20.28
Cancelled	—	—
Vested	(33,500)	15.08
Non-vested at April 30, 2015	256,100	$18.49

The total weighted average grant-date fair value of restricted stock awards that vested during each of the six-month periods ended April 30, 2015 and 2014 was $0.5 million, respectively. As of April 30, 2015, total unrecognized compensation cost related to unamortized restricted stock awards was $2.3 million. We expect to recognize this expense over the remaining weighted average vesting period of 1.6 years.

Stock Options

Stock options are awarded to key employees, officers and non-employee directors. Director stock options vest immediately while employee and officer stock options typically vest ratably over a three-year period with service and continued employment as the vesting conditions. Our stock options may be exercised up to a maximum of ten years from the date of grant. The fair value of the stock options is determined on the grant date and expensed over the vesting period resulting in an increase in additional paid-in-capital.

We use a Black-Scholes pricing model to estimate the fair value of stock options. A description of the methodology for the valuation assumptions was disclosed in our Annual Report on Form 10-K for the fiscal year ended October 31, 2014.

The following table provides a summary of assumptions used to estimate the fair value of our stock options issued during the six-month periods ended April 30, 2015 and 2014.

	Six Months Ended April 30,	
	2015	2014
Weighted-average expected volatility	47.7%	55.7%
Weighted-average expected term (in years)	5.6	5.9
Risk-free interest rate	1.6%	1.8%
Expected dividend yield over expected term	1.0%	1.0%
Weighted average grant date fair value	$8.40	$8.52

The following table summarizes our stock option activity for the six months ended April 30, 2015:

	Stock Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (000s)
Outstanding at October 31, 2014	2,588,389	$16.21		
Granted	123,900	20.28		
Exercised	(273,950)	15.26		

Forfeited/Expired	(167)	15.08		
Outstanding at April 30, 2015	2,438,172	$16.52	6.0	$7,591
Vested or expected to vest at April 30, 2015	2,411,605	$16.49	5.9	$7,577
Exercisable at April 30, 2015	1,972,200	$15.95	5.4	$7,105

Intrinsic value is the amount by which the market price of the common stock on the date of exercise exceeds the exercise price of the stock option. The total intrinsic value of stock options exercised during the six months ended April 30, 2015 and 2014 was $1.1 million and $2.6 million. The weighted-average grant date fair value of stock options that vested during the six months ended April 30, 2015 and 2014 was $2.3 million and $3.0 million, respectively. As of April 30, 2015, total unrecognized compensation cost related to stock options was $2.3 million. We expect to recognize this expense over the remaining weighted average vesting period of 1.5 years.

Restricted Stock Units

Restricted stock units may be awarded to key employees and officers from time to time, and annually to non-employee directors. The director restricted stock units vest immediately but are payable only upon the director's cessation of service, whereas restricted stock units awarded to employees and officers typically cliff vest after a three-year period with service and continued employment as the vesting conditions. Restricted stock units are not considered outstanding shares and do not have voting rights, although the holder does receive a cash payment equivalent to the dividend paid, on a one-for-one basis, on our outstanding common shares. Once the criteria is met, each restricted stock unit is payable to the holder in cash based on the market value of one share of our common stock. Accordingly, we record a liability for the restricted stock units on our balance sheet and recognize any changes in the market value during each reporting period as compensation expense.

The following table summarizes non-vested restricted stock unit activity during the six months ended April 30, 2015:

	Restricted Stock Units	Weighted Average Grant Date Fair Value per Share
Non-vested at October 31, 2014	83,500	$15.08
Vested	(83,500)	15.08
Non-vested at April 30, 2015	—	$—

During the six-month periods ended April 30, 2015 and 2014, we paid $1.7 million and $0.5 million, respectively, to settle certain restricted stock units.

Performance Share Awards

Historically, we have granted performance units to key employees and officers annually. These awards cliff vest after a three-year period with service and performance measures such as relative total shareholder return and earnings per share growth as vesting conditions. These awards were treated as a liability and marked to market based upon our assessment of the achievement of the performance measures, with the assistance of third-party compensation consultants.

For the annual grants which occurred in December 2014 and 2013, we granted performance shares rather than performance units. These performance share awards have the same performance measures (relative total shareholder return and earnings per share growth). However, the number of shares earned is variable depending on the metrics achieved, and the settlement method is 50% in cash and 50% in our common stock.

To account for these awards, we have bifurcated the portion subject to a market condition (relative total shareholder return) and the portion subject to an internal performance measure (earnings per share growth). We have further bifurcated these awards based on the settlement method, as the portion expected to settle in stock (equity component) and the portion expected to settle in cash (liability component).

To value the shares subject to the market condition, we utilized a Monte Carlo simulation model to arrive at a grant-date fair value. This amount will be expensed over the three-year term of the award with a credit to additional paid-in-capital. To value the shares subject to the internal performance measure, we used the value of our common stock on the date of grant as the grant-date fair value per share. This amount is being expensed over the three-year term of the award, with a credit to additional paid-in-capital, and could fluctuate depending on the number of shares ultimately expected to vest based on our assessment of the probability that the performance conditions will be achieved. For both performance conditions, the portion of the award expected to settle in cash is recorded as a liability and is being marked to market over the three-year term of the award, and can fluctuate depending on the number of shares ultimately expected to vest.

In conjunction with the annual grants in December 2014 and 2013, we awarded 137,400 and 155,800 performance shares, respectively, of which 0% to 200% of these shares may ultimately vest, depending on the achievement of the performance conditions. During 2014, 7,000 of the performance shares issued in December 2013 were forfeited. For the six-month periods ended April 30, 2015 and 2014, we have recorded $0.8 million and $0.5 million of compensation expense, respectively, related to these performance share awards.

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Performance share awards are not considered outstanding shares and do not have voting rights, although dividends are accrued over the performance period and will be payable in cash based upon the number of performance shares ultimately earned.

The performance shares are excluded from the diluted weighted-average shares used to calculate earnings per share until the performance criteria is probable to result in the issuance of contingent shares.

Treasury Shares

On September 5, 2014, our Board cancelled our existing stock repurchase program and approved a new stock repurchase program authorizing us to use up to $75.0 million to repurchase shares of our common stock. For the period from September 5, 2014 through October 31, 2014, we purchased 1,316,326 shares at a cost of $24.2 million under the new program. During the six months ended April 30, 2015, we purchased an additional 2,675,903 shares at a cost of $50.8 million. From inception of the program, we purchased 3,992,229 shares at a cost of $75.0 million.

We record treasury stock purchases under the cost method whereby the entire cost of the acquired stock is recorded as treasury stock. Shares are generally issued from treasury stock at the time of grant of restricted stock awards, and upon the exercise of stock options and upon the issuance of performance shares. On the subsequent issuance of treasury shares, we record proceeds in excess of cost as an increase in additional paid in capital. A deficiency of such proceeds relative to costs would be applied to reduce paid-in-capital associated with prior issuances to the extent available, with the remainder recorded as a charge to retained earnings. We recorded a charge to retained earnings of $0.7 million in March 2015.

The following table summarizes the treasury stock activity during the six months ended April 30, 2015:

	Six Months Ended April 30, 2015
Beginning balance as of November 1, 2014	1,417,700
Restricted stock awards granted	(68,800)
Stock options exercised	(273,950)
Shares purchased	2,675,903
Balance at end of period	3,750,853

13. Other Income (Expense)

Other income (expense) included under the caption "Other, net" on the accompanying condensed consolidated statements of income (loss), consisted of the following for the three- and six-month periods ended April 30, 2015 and 2014:

	Three Months Ended April 30,		Six Months Ended April 30,	
	2015	2014	2015	2014
	(In thousands)			
Foreign currency transaction (losses) gains	$(88)	$170	$(922)	$66
Foreign currency derivative (losses) gains	(38)	(208)	614	(94)
Interest income	8	16	39	22
Other	3	—	3	80
Other (expense) income	$(115)	$(22)	$(266)	$74

14. Earnings Per Share

We compute basic earnings per share by dividing net income by the weighted average number of common shares outstanding during the period. Diluted earnings per common and potential common shares include the weighted average of additional shares associated with the incremental effect of dilutive employee stock options, non-vested restricted stock as determined using the treasury stock method prescribed by U.S. GAAP and contingent shares associated with performance share awards, if dilutive.

The computation of diluted earnings per share excludes outstanding stock options and other common stock equivalents when their inclusion would be anti-dilutive. This is always the case when an entity incurs a net loss from continuing operations, as we

did for the six-month period ended April 30, 2015, as well as the three and six months ended April 30, 2014. During these periods, common stock equivalents of 451,590, 513,653, and 521,719, respectively, and restricted stock shares of 107,748, 107,589, and 95,912, respectively, were excluded from the computation of diluted earnings per share.
Basic and diluted earnings per share from continuing operations for the three-month period ended April 30, 2015 was calculated as follows (in thousands, except per share data):

	Three Months Ended April 30, 2015		
	Net Income from Continuing Operations	Weighted Average Shares	Per Share
Basic earnings per common share	$2,294	33,621	$0.07
Effect of dilutive securities:			
Stock options	—	429	
Restricted stock awards	—	116	
Diluted earnings per common share	$2,294	34,166	$0.07

For the three- and six-month periods ended April 30, 2015 and 2014, there were no potentially dilutive contingent shares related to performance share awards as the issuance of these shares was not yet deemed probable.
For each of the three- and six-month periods ended April 30, 2015, we had 731,272 securities, respectively, and for the three- and six-month periods ended April 30, 2014, we had 920,662 and 971,284 securities, respectively, that were potentially dilutive in future earnings per share calculations. Such dilution will be dependent on the excess of the market price of our stock over the exercise price and other components of the treasury stock method.

15. New Accounting Pronouncements

In April 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2015-03, Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs. This amendment requires debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with the treatment of debt discounts. This guidance becomes effective for financial statements issued for fiscal years beginning after December 15, 2015. We expect to adopt this guidance during fiscal 2017, and we are currently evaluating the impact on our consolidated financial statements.
In June 2014, the FASB issued ASU No. 2014-12, Compensation - Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could be Achieved after the Requisite Service Period. This amendment requires that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition that affects vesting or as a nonvesting condition that affects the grant-date fair value of an award, and provides explicit guidance for those awards. This guidance becomes effective for fiscal years beginning on or after December 15, 2015. We expect to adopt this guidance during fiscal 2017, and we do not expect this pronouncement to have a material impact on our consolidated financial statements.
In May 2014, the FASB issued ASU No. 2014-09, “Revenue from Contracts with Customers.” This guidance prescribes a methodology to determine when revenue is recognizable and constitutes a principles-based approach to revenue recognition based on the consideration to which the entity expects to be entitled in exchange for goods or services. In addition, this guidance requires additional disclosure in the notes to the financial statements with regard to the methodology applied. This pronouncement becomes effective for annual reporting periods beginning after December 15, 2016, and will essentially supersede and replace existing revenue recognition rules in U.S. GAAP, including

industry-specific guidance. We expect to adopt this pronouncement in fiscal 2018, and we are currently evaluating the impact on our consolidated financial statements.

In April 2014, the FASB issued ASU No. 2014-08, Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity. This new guidance clarifies the definition of a discontinued operation as a disposal of a component of any entity, or a group of such components, which represent a strategic shift that has or will have a major effect on an entity's operations and financial results. This guidance should result in fewer applications of discontinued operations accounting treatment. However, if such accounting treatment is required, the guidance requires additional footnote disclosures with regard to the major classes of line items constituting pretax profit or loss of the discontinued operation, a reconciliation of the major classes of assets and liabilities of the discontinued operation, and additional disclosure with regard to cash flows of the discontinued operation. This guidance becomes effective for fiscal years beginning on or after December 15, 2014. We expect to adopt this guidance during fiscal 2016, and we are currently evaluating the impact on our consolidated financial statements.

In July 2013, the FASB issued ASU No. 2013-11, Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists, which provides guidance related to the presentation of current and deferred income taxes on the balance sheet. In general, an entity must present an unrecognized tax benefit related to a net operating loss carryforward, similar tax loss or tax credit carryforward, as a reduction of a deferred tax asset, except in prescribed circumstances through which liability presentation would be appropriate. This guidance became effective for fiscal years beginning after December 15, 2013. We adopted this guidance on November 1, 2014 with no material impact on our consolidated financial statements.

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Unless the context indicates otherwise, references to "Quanex", the "Company", "we", "us" and "our" refer to the consolidated business operations of Quanex Building Products Corporation and its subsidiaries.

Cautionary Note Regarding Forward-Looking Statements

Certain of the statements contained in this document and in documents incorporated by reference herein, including those made under the caption “Management’s Discussion and Analysis of Financial Condition and Results of Operations” are “forward-looking” statements as defined under the Private Securities Litigation Reform Act of 1995. Generally, the words “expect,” “believe,” “intend,” “estimate,” “anticipate,” “project,” “will” and similar expressions identify forward-looking statements, which generally are not historical in nature. Forward looking statements are (1) all statements which address future operating performance, (2) events or developments that we expect or anticipate will occur in the future, including statements relating to volume, sales, operating income and earnings per share, and (3) statements expressing general outlook about future operating results. Forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from our historical experience and our current projections or expectations. As and when made, we believe that these forward-looking statements are reasonable. However, caution should be taken not to place undue reliance on any such forward-looking statements since such statements speak only as of the date when made and there can be no assurance that such forward-looking statements will occur. We are not obligated to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Factors that could cause actual results to differ materially from those expressed or implied by the forward-looking statements include, but are not limited to the following:

- changes in market conditions, particularly in the new home construction, and residential remodeling and replacement (R&R) activity markets;
- changes in prevailing prices of resin and other raw material costs;
- changes in domestic and international economic conditions;
- changes in purchases by our principal customers;
- fluctuations in foreign currency exchange rates;
- our ability to maintain an effective system of internal controls;
- our ability to successfully implement our internal operating plans and acquisition strategies;
- our ability to successfully implement our plans with respect to information technology (IT) systems and processes;
- our ability to control costs and increase profitability;
- changes in environmental laws and regulations;
- changes in warranty obligations;
- changes in energy costs;
- changes in tax laws, and interpretations thereof;
- changes in interest rates;
- our ability to maintain a good relationship with our suppliers, subcontractors, and key customers; and
- the resolution of litigation and other legal proceedings.

For information on additional factors that could cause actual results to differ materially, please refer to the section entitled “Item 1A. Risk Factors” in our Annual Report on Form 10-K for the fiscal year ended October 31, 2014.

About Third-Party Information

In this report, we rely on and refer to information regarding industry data obtained from market research, publicly available information, industry publications, U.S. government sources and other third parties. Although we believe this information is reliable, we cannot guarantee the accuracy or completeness of the information and have not independently verified it.

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Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis should be read in conjunction with the accompanying unaudited condensed consolidated financial statements and related notes as of April 30, 2015, and for the three- and six-month periods ended April 30, 2015 and 2014, included elsewhere herein. For additional information pertaining to our business, including risk factors which should be considered before investing in our common stock, refer to our Annual Report on Form 10-K for the fiscal year ended October 31, 2014.

Our Business

Quanex Building Products Corporation manufactures components primarily for the window and door (fenestration) industry, which include (1) energy-efficient flexible insulating glass spacers, (2) extruded vinyl profiles, (3) window and door screens, and (4) precision-formed metal and wood products for original equipment manufacturers (OEMs), as well as certain non-fenestration components, which include solar panel sealants, wood flooring and trim moldings. Quanex Building Products Corporation serves a primary customer base in North America and also serves customers in international markets through operating plants in the United Kingdom and Germany, as well as through sales and marketing efforts in other countries.

We continue to invest in organic growth initiatives and to pursue targeted business acquisitions, which may include vertically integrated vinyl extrusion businesses or screen manufacturers that allow us to expand our existing fenestration footprint, enhance our existing product offerings, acquire complementary technology, enhance our leadership position within the markets we serve, and expand into new markets or service lines.

We have four operating segments which we aggregate into one reportable business segment.

Recent Transactions and Events

Prior to April 1, 2014, we had two reportable business segments: (1) Engineered Products and (2) Aluminum Sheet Products. On April 1, 2014, we sold our interest in a limited liability company which held the assets of the Nichols Aluminum business (Nichols), the sole operating segment included in our Aluminum Sheet Products reportable segment, to Aleris International, Inc.

(Aleris), a privately held Delaware corporation which provides aluminum rolled products and extrusions, aluminum recycling and specification aluminum alloy production. We received gross proceeds of $110.0 million, which was reduced to $107.4 million, as a result of a working capital adjustment of $2.6 million that we paid in June 2014, resulting in a gain on the transaction of $24.1 million, net of related taxes of $15.1 million. We expect to continue to purchase aluminum product from Nichols, which has historically totaled approximately $12.0 million annually. Our purchases of aluminum product from Nichols for the three- and six-month periods ended April 30, 2015 and 2014 were $1.6 million and $6.2 million, respectively, and $3.3 million and $6.8 million, respectively.

In November 2013, Nichols experienced a fire at its Decatur, Alabama facility, which damaged a cold mill used to roll aluminum sheet to a desired thickness. The loss was insured, subject to a $0.5 million deductible. We capitalized $6.5 million to rebuild the asset, which was returned to service as of March 31, 2014. We incurred costs of $2.3 million associated with this loss, including an impairment of $0.5 million related to retirement of the asset, moving costs, outside service costs, clean-up and the deductible. To date, we have received insurance proceeds of $5.3 million. We revised our estimate of total insurance proceeds expected related to this loss to approximately $6.3 million, resulting in an expected gain on involuntary conversion of $3.9 million, of which we have recognized $2.9 million. We estimate the remaining pretax gain on involuntary conversion at $1.0 million and we expect this gain will be recognized during fiscal 2015, when and to the extent that insurance proceeds are received, which will result in an increase in income from discontinued operations, net of tax.

In December 2013, we acquired certain vinyl extrusion assets of Atrium Windows and Doors, Inc. (Atrium) at a facility in Greenville, Texas, for $5.2 million in cash (Greenville). We accounted for this transaction as a business combination resulting in an insignificant gain on the purchase. We entered into a supply agreement with Atrium related to the products manufactured at Greenville. We believe this acquisition expanded our vinyl extrusion capacity and positioned us with a platform from which to better serve our customers in the southern United States.

Market Overview and Outlook

We believe the primary drivers of our operating results continue to be new home construction and residential remodeling and replacement (R&R) activity. We believe that housing starts and window shipments are indicators of activity levels in the home building industry, and we use this data, as published by or derived from third-party sources, to evaluate the market.

Activity levels in the building products industry in the United States have increased annually since the recovery began in 2010, as evidenced by an increase in housing starts and window shipments. The National Association of Homebuilders (NAHB)

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has forecasted calendar-year housing starts to increase from 1.0 million units in 2014 to 1.1 million units in 2015 and 1.3 million units in 2016, reflecting increasing consumer confidence and a healthier economy. Ducker Worldwide, LLC (Ducker), a consulting and research firm, indicated that window shipments in the R&R market are expected to increase from 28.0 million units in 2015 to 29.4 million units in 2016 and 30.5 million units in 2017, with new construction window shipments forecasted to increase at a higher pace. Derived from reports published by Ducker, the overall growth in window shipments for the trailing twelve-month period ended March 31, 2015 was 5.8%. During this period, growth in new construction increased 10.1%, while growth in R&R activity increased 2.9%. In recent years, growth in new construction has outpaced the growth in R&R, with a greater portion of the new construction associated with multi-family housing.

Higher energy efficiency standards in Europe are impacting the industry. We continue to be optimistic about our growth prospects in Europe, particularly in the United Kingdom, Germany and Scandinavian countries, where the push for higher energy efficiency standards has been the greatest. Older technology cold-edge spacers are still a dominant force in these regions and garner a larger portion of the total market share in Europe relative to the United States. We operate warm-edge spacer plants in the United Kingdom and Germany. We have encountered some spacer migration issues under extreme conditions for some spacer products sold by our German subsidiary. This issue was related to a vapor barrier that was discontinued in early 2014. Market conditions have slowed our near-term growth in Germany. However, we remain confident that we can become the provider of choice in Europe and the other markets we serve as demand for more energy-efficient warm edge spacers grows and eventually displaces cold edge spacers.

There are various internal and external factors that impact our operating results and challenge our growth prospects in the markets that we serve. Our business is subject to seasonality, as activity levels generally decline during the first half of the fiscal year and increase for the second half of the fiscal year. In addition, we utilize several commodities in our business for which pricing can fluctuate, including polyvinyl resin (PVC) and petroleum products. We typically include surcharges in our customer contracts which allow us to pass a portion of these price fluctuations onto our customers. However, during 2014 we were limited in our ability to recoup some of the increase in resin costs for certain customers of our vinyl extrusion products through surcharges due to contractual constraints. We renegotiated these customer contracts for the calendar year 2015. In addition, the price of crude oil per barrel has changed dramatically in recent months from a high of more than $100 per barrel to approximately $58 per barrel. Although we benefit from lower commodity prices associated with these petroleum products used in our business, our customer contracts may require concessions if oil prices per barrel decline below a designated threshold. Furthermore, with the recent weakening of the United States dollar relative to the euro and British pound, we have been impacted by foreign exchange losses which have reduced our short-term results in Europe. Ultimately, our profitability depends upon our ability to negotiate price, meet our customer’s product and delivery demands, manage our cost structure given these internal and external factors, and efficiently operate our facilities.

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Results of Operations

Three Months Ended April 30, 2015 Compared to Three Months Ended April 30, 2014

	Three Months Ended April 30,			
	2015	2014	Change $	Change %
	(Dollars in millions)			
Net sales	$141.9	$135.2	$6.7	5 %
Cost of sales (excluding depreciation and amortization)	110.8	108.6	2.2	2 %
Selling, general and administrative	19.7	20.4	(0.7)	(3)%
Depreciation and amortization	7.8	8.5	(0.7)	(8)%
Asset impairment charges	—	0.5	(0.5)	(100)%
Operating income (loss)	$3.6	$(2.8)	$6.4	229 %
Interest expense	(0.1)	(0.2)	0.1	(50)%
Other, net	(0.1)	—	(0.1)	— %
Income tax (expense) benefit	(1.1)	1.0	(2.1)	(210)%
Income (loss) from continuing operations	$2.3	$(2.0)	$4.3	215 %
Income from discontinued operations, net of tax	—	22.1	(22.1)	(100)%
Net income	$2.3	$20.1	$(17.8)	(89)%

Net Sales. Net sales increased $6.7 million, or 5%, for the three months ended April 30, 2015 compared to the same period in 2014. The increase was generally due to higher activity levels in the fenestration industry, as the market continues a relatively steady recovery in terms of window shipments and housing starts. This trend, which is expected to continue for the foreseeable future, is evidenced by the year-over-year growth in window shipments as derived from preliminary data provided by Ducker for the calendar quarters ended March 31, 2015 and 2014, reflecting an overall growth rate of 6.3%, compared with a growth rate of 7.8%, for our year-over-year fiscal quarters ended April 30, 2015 and 2014, as adjusted for certain foreign and other results to be more comparable to Ducker. Of the $6.7 million increase in sales, $2.5 million was attributable to more favorable pricing for certain products and services, $5.6 million was attributable to increased volume, less an unfavorable foreign exchange rate impact of $2.5 million, with the remaining difference attributable to sales mix. We expect our growth rates to continue to converge with the Ducker growth rates throughout 2015.

Cost of Sales. The increase in cost of sales of $2.2 million, or 2%, for the three months ended April 30, 2015 compared to the same period in 2014, was at a slower pace than the 5% increase in net sales for the respective periods, as discussed above, resulting in more favorable margins for 2015. The increase in cost of sales was primarily driven by higher activity levels, but was also benefited by some labor efficiencies and favorable health insurance claims experience and recoveries. Additionally, we experienced lower incremental repair and maintenance costs year-over-year, as a disproportionately large amount of such costs were incurred in 2014 with regard to our vinyl extrusion plants.

Selling, General and Administrative. Our selling, general and administrative expenses decreased by $0.7 million, or 3%, for the three months ended April 30, 2015 compared to the same period in 2014. This decrease is primarily attributable the timing of incentive accruals between periods based on earnings, as well as a decrease in compensation expense associated with long-term incentive arrangements tied to the performance of our common stock. These decreases were partially offset by an increase in professional service fees.

Depreciation and Amortization. Depreciation and amortization expense decreased $0.7 million, or 8%, for the three months ended April 30, 2015 compared to the same period in 2014. This decrease in expense is associated with the normal run-off of depreciation and amortization of existing assets, partially offset by such expense incurred with regard to new assets placed into service during the trailing twelve months ended April 30, 2015.

Asset Impairment Charges. We recorded an impairment loss of $0.5 million in April 2014 to reduce the value of a facility in Barbourville, Kentucky to market value as of April 30, 2014. This facility was subsequently sold in May 2014, resulting in an insignificant realized loss on the sale. No such impairment was incurred during the three months ended April 30, 2015.

Interest Expense. Interest expense decreased $0.1 million for the three-months ended April 30, 2015 compared to the same period in 2014. This decrease is due to lower debt outstanding compared to 2014.

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Other, net. The increase in other net expense of $0.1 million for the three months ended April 30, 2015 compared to the same period in 2014 was due primarily to net foreign exchange transaction losses.

Income Taxes. We recorded an income tax expense of $1.1 million for the three months ended April 30, 2015, an effective rate of 33.1%. For the three months ended April 30, 2014, we recorded an income tax benefit of $1.0 million, an effective rate of 32.2%. These results were driven by a change in pretax income (loss) for the respective periods. The remainder of the difference in the effective rates between these periods relates to the impact of permanent items and the foreign tax rate differential.

Income from Discontinued Operations, Net of Tax. We recorded a gain on the sale of Nichols of $24.6 million, net of tax of $15.1 million as of April 1, 2014. Excluding this gain, the loss from discontinued operations for the three-month period ended April 30, 2014 would have been a loss of $2.5 million due to the effect of aluminum commodity prices, which resulted in lower throughput and lower volume.

Six Months Ended April 30, 2015 Compared to Six Months Ended April 30, 2014

	Six Months Ended April 30,			
	2015	2014	Change $	Change %
	(Dollars in millions)			
Net sales	$269.9	$261.6	$8.3	3 %
Cost of sales (excluding depreciation and amortization)	216.6	204.8	11.8	6 %
Selling, general and administrative	39.2	43.0	(3.8)	(9)%
Depreciation and amortization	16.0	17.0	(1.0)	(6)%
Asset impairment charges	—	0.5	(0.5)	(100)%
Operating loss	$(1.9)	$(3.7)	$1.8	49 %
Interest expense	(0.3)	(0.3)	—	— %
Other, net	(0.3)	0.1	(0.4)	(400)%
Income tax benefit	1.7	0.7	1.0	143 %
Loss from continuing operations	$(0.8)	$(3.2)	$2.4	75 %
Income from discontinued operations, net of tax	—	19.4	(19.4)	(100)%
Net (loss) income	$(0.8)	$16.2	$(17.0)	(105)%

Net Sales. Net sales increased $8.3 million, or 3%, for the six months ended April 30, 2015 compared to the same period in 2014. The fenestration market grew throughout 2014 and continued to grow in 2015. The year-over-year growth in window shipments as derived from preliminary data provided by Ducker for the six months ended March 31, 2015 and 2014 was 6.8%, and, for the trailing twelve months then ended, 5.8%. By comparison, our sales growth was 4.3% and 3.6%, respectively, as adjusted for certain foreign and other results to be more comparable to Ducker. To some extent, the disparity between our growth rate and that of the broader market reflects timing of the recovery in the building products industry. For the first half of 2015, net sales increased $3.3 million as a result of favorable pricing and $7.0 million due to volume. Although we experienced a decrease in volume for one of our large customers, this has been more than offset by the Greenville acquisition volume and growth with other customers. These increases have been offset by a $3.5 million reduction associated with foreign exchange rate changes. The United States dollar has weakened during 2015 relative to the British pound and euro, which has resulted in a non-operational decrease in contribution from our foreign operations attributable to foreign exchange rate changes. The remainder of the overall sales increase was associated with sales mix. We expect our growth rates to continue to converge with the Ducker growth rates throughout 2015.

Cost of Sales. The increase in cost of sales of $11.8 million, or 6%, for the six months ended April 30, 2015 compared to the same period in 2014 exceeded a 3% increase in net sales for the respective periods. The increase in cost of sales is primarily due to increased activity levels. The results for 2014 benefited from a $2.8 million warranty reserve reversal with regard to certain spacer product for which claim activity had ceased. Excluding the impact of this item, cost of goods sold would have increased 4% year-over-year. To some extent, our labor and overhead efficiency decreased in 2015 relative to 2014, as we absorbed more cost in 2014 associated with the inventory build. By comparison, the seasonal build in 2015 has been at a slower pace, due to sufficient inventory on hand.

Selling, General and Administrative. Our selling, general and administrative expenses decreased by $3.8 million, or 9%, for the six months ended April 30, 2015 compared to the same period in 2014. This decrease is primarily due to lower headcount and workforce realignments during 2014, timing of incentive accruals based on operating results year-over-year, lower stock-based compensation costs associated with long-term incentives tied to the price of our common stock, favorable decline in other operating costs including bad debt expense and software costs. These decreases were partially offset by a slight increase in professional service fees and higher insurance costs.

Depreciation and Amortization. Depreciation and amortization expense decreased $1.0 million, or 6%, for the six months ended April 30, 2015 compared to the same period in 2014. The results for the first half of 2014 included $0.5 million associated with the run-off of depreciation associated with an ERP project that was ceased in August 2013 as well as the impact of other asset retirements. These decreases in expense year-over-year were partially offset by incremental depreciation and amortization expense associated with fixed and intangible assets placed into service during the trailing twelve months ended April 30, 2015, as well as the incremental effect of the assets purchased in conjunction with the Greenville acquisition in December 2013.

Asset Impairment Charges. We recorded an impairment loss of $0.5 million in April 2014 to reduce the value of a facility in Barbourville, Kentucky to market value as of April 30, 2014. This facility was subsequently sold in May 2014, resulting in an insignificant realized loss on the sale. No such impairment was incurred during the six months ended April 30, 2015.

Interest Expense. Interest expense was consistent at $0.3 million for the six-month periods ended April 30, 2015 and 2014.

Other, net. The increase in other net expense of $0.4 million for the six months ended April 30, 2015 compared to the same period in 2014 was due primarily to net foreign exchange transaction losses.

Income Taxes. We recorded an income tax benefit of $1.7 million for the six months ended April 30, 2015, an effective rate of 67.7%, which included a discrete benefit of $0.8 million associated with the reversal of a liability for tax benefit associated with an uncertain tax position which stems from the 2008 spin-off of Quanex from a predecessor company. Excluding this discrete item, the effective tax rate would have been a benefit of 35.5%. For the six months ended April 30, 2014, we recorded an income tax benefit of $0.7 million, an effective rate of 16.9%, which included a discrete expense item of $0.7 million associated with the incorporation of the U.K. subsidiary. Excluding this discrete item, the effective tax rate would have been a benefit of 33.6%. The remaining difference in the effective rates between these periods relates to the impact of the foreign tax rate differential and permanent items.

Income from Discontinued Operations, Net of Tax. We recorded a gain on the sale of Nichols of $24.6 million, net of tax of $15.1 million as of April 1, 2014. Excluding this gain, we would have recorded a loss from discontinued operations of $5.2 million due primarily to the effect of relatively higher aluminum commodity prices, which resulted in lower throughput and lower volume.

Liquidity and Capital Resources

Overview

Our principal sources of funds are cash on hand, cash flow from operations, and borrowings under our $150 million Senior Unsecured Revolving Credit Facility (the Credit Facility). As of April 30, 2015, we had $60.0 million of cash and cash equivalents, $143.4 million of availability under the Credit Facility and outstanding debt of $0.6 million, of which no amounts were outstanding under our Credit Facility.

Cash and cash equivalents decreased by $60.4 million during the six months ended April 30, 2015 due primarily to the purchase of treasury shares, capital investments in our manufacturing facilities, dividends paid and on-going operational activities.

Analysis of Cash Flow

The following table summarizes our cash flow results for the six months ended April 30, 2015 and 2014:

	Six Months Ended April 30,	
	2015	2014
	(In millions)	
Cash flows provided by (used for) operating activities	$3.3	$(11.0)
Cash flows (used for) provided by investing activities	$(12.7)	$87.9
Cash flows (used for) provided by financing activities	$(51.4)	$0.4

Operating Activities. Cash provided by operating activities for the six-month period ended April 30, 2015 improved by approximately $14.3 million compared to the six-month period ended April 30, 2014. This is largely attributable to the Nichols

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business which was sold on April 1, 2014, which contributed a net loss of $5.1 million for the period November 1, 2013 through April 1, 2014, before the gain on the sale, for which there was no activity for the same period in 2015. We combine the Nichols discontinued operations with our continuing operations for cash flow presentation as permitted by U.S. GAAP. In addition, we used cash to invest in inventory in prior year to prepare for busy season, and to a lesser extent in 2015. Working capital was $139.8 million, $186.2 million and $185.3 million as of April 30, 2015, October 31, 2014 and April 30, 2014, respectively.

Investing Activities. Cash used for investing activities for the six months ended April 30, 2015 increased by approximately $100.6 million compared to the six-month period ended April 30, 2014. The primary driver of this difference was the receipt of $110.0 million of proceeds from the sale of Nichols on April 1, 2014, partially offset by a decrease in cash invested in capital expenditures of $5.2 million year-over-year, and cash used for acquisitions of $5.2 million for the Greenville purchase in 2014.

Financing Activities. Cash used for financing activities was $51.4 million for the six-month period ended April 30, 2015, of which $52.7 million was used to purchase treasury stock and $2.8 million was used to pay dividends. These purchases were partially offset by $4.2 million of proceeds received from stock option exercises. We used $0.4 million for financing activities for the six months ended April 30, 2014, of which $3.0 million was used to pay dividends, partially offset by proceeds of $2.9 million received from stock option exercises.

Liquidity Requirements

Our strategy for deploying cash is to invest in organic growth opportunities, develop our infrastructure and make strategic acquisitions. Other uses of cash include paying cash dividends to our shareholders and opportunistically repurchasing our common stock. Any excess cash and cash equivalents are invested in commercial paper with terms of three months or less. Our investments are diversified across multiple institutions that we believe are financially sound. We intend to remain in commercial paper, highly rated money market funds, financial institutions and treasuries following a prudent investment philosophy. From time to time, to prepare for potential disruption in the money markets, we may temporarily move funds into operating bank accounts of highly-rated financial institutions to meet on-going operational liquidity requirements. We did not experience any material losses on our cash and marketable securities investments during the six-month periods ended April 30, 2015 and 2014. We maintain cash balances in foreign countries which total $3.8 million as of April 30, 2015. We consider these funds to be permanently reinvested in these countries.

Senior Credit Facility

On January 28, 2013, we entered into a $150 million senior unsecured revolving credit facility that has a five-year term, maturing on January 28, 2018, and which permits aggregate borrowings at any time of up to $150 million, with a letter of credit sub-facility, a swing line sub-facility and a multi-currency sub-facility. Borrowings denominated in U.S dollars bear interest at a spread above LIBOR or a base rate derived from the prime rate. Foreign denominated borrowings bear interest at a spread above LIBOR applicable to such currencies. Subject to customary conditions, we may request that the aggregate commitments under the Credit Facility be increased by up to $100 million, with total commitments not to exceed $250 million.

The Credit Facility requires us to comply with certain financial covenants, the terms of which are defined therein. Specifically, we must not permit, on a quarterly basis, our ratio of consolidated EBITDA to consolidated interest expense as defined (Minimum Interest Coverage Ratio), to fall below 3.00:1, or our ratio of consolidated funded debt to consolidated EBITDA as defined (Maximum Consolidated Leverage Ratio), to exceed 3.25:1. The Maximum Consolidated Leverage Ratio is the ratio of consolidated EBITDA to consolidated interest expense, in each case for the previous four consecutive fiscal quarters. EBITDA is defined by the indenture to include pro forma EBITDA of acquisitions and to exclude certain items such as goodwill and intangible asset impairments and certain other non-cash charges and non-recurring items. Subject to our compliance with the covenant requirements, the amount available under the Credit Facility is a function of: (1) our trailing twelve month EBITDA; (2) the Minimum Interest Coverage Ratio and Maximum Consolidated Leverage Ratio allowed under the Credit Facility; and (3) the aggregate amount of our outstanding debt and letters of credit. As of April 30, 2015, we were in compliance with the financial covenants set forth in the Credit Facility, as indicated in the table below:

	Required	Actual

Minimum Interest Coverage Ratio	No less than	3.00:1	87.95:1
Maximum Consolidated Leverage Ratio	No greater than	3.25:1	0.14:1

The Credit Facility also contains certain limitations on additional indebtedness, asset or equity sales and acquisitions. The payment of dividends and other distributions is permitted, provided there is no event of default after giving effect to such transactions. If the counterparties to the Credit Facility were unable to fulfill their commitments, the funds available to us could be reduced. However, we have no reason to believe that such liquidity will be unavailable or reduced.

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We believe that we have sufficient funds and adequate financial resources available to meet our anticipated liquidity needs. We also believe our cash balances and cash flow from operations will be sufficient in the next twelve months and foreseeable future to finance our anticipated working capital requirements, capital expenditures, debt service requirements, and dividends.

As of April 30, 2015, the amount available to us for use under the Credit Facility was limited to $143.4 million and we had outstanding letters of credit of $5.9 million. For the six-month period ended April 30, 2015, we did not borrow any amount under the Credit Facility, and thus had no outstanding borrowings at April 30, 2015. Our current borrowing rate under the Credit Facility was 3.25% and 1.20% for the swing-line sub facility and the revolver, respectively, at April 30, 2015.

Repurchases of Outstanding Securities

On September 5, 2014, our Board cancelled our existing stock repurchase program and approved a new stock repurchase program authorizing us to use up to $75.0 million to repurchase shares of our common stock. These purchases were made in open market transactions or privately negotiated transactions in compliance with the Securities and Exchange Commission rule 10b5-1, subject to market conditions, applicable legal requirements and other relevant factors. Upon completion of the stock repurchase program during February 2015, our cumulative purchases pursuant to this plan were 3,992,229 shares totaling $75.0 million, an average price of $18.77 per share.

Critical Accounting Policies and Estimates

The preparation of our financial statements in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) requires us to make estimates and assumptions that affect the reported amount of assets, liabilities, revenues and expenses and related disclosures of contingent assets and liabilities. Estimates and assumptions about future events and their effects cannot be perceived with certainty. Estimates may change as new events occur, as more experience is acquired, as additional information becomes available and as our operating environment changes. We base our estimates on historical experience and on various other assumptions that we believe are reasonable under the circumstances, and that we believe provide a basis for making judgments about the carrying value of assets and liabilities that are not readily available through open market quotes. We must use our judgment with regard to uncertainties in order to make these estimates. Actual results could differ from these estimates.

For a description of our critical accounting policies and estimates, see our Annual Report on Form 10-K for the fiscal year ended October 31, 2014. Our critical accounting policies and estimates have not changed materially during the six months ended April 30, 2015, except with regard to our critical accounting policy associated with income taxes pertaining to the reassessment of the liability for tax benefit associated with an uncertain tax position stemming from the 2008 spin-off of Quanex from its predecessor company. See a description in the accompanying Notes to Unaudited Condensed Consolidated Financial Statements, Note 8, "Income Taxes", contained elsewhere herein.

New Accounting Pronouncements

From time to time, new accounting pronouncements are issued by the FASB or other standards setting bodies that we adopt as of the specified effective date. Unless otherwise discussed, we believe the impact of any other recently issued standards that are not yet effective are either not applicable to us at this time or will not have a material impact on our consolidated financial statements upon adoption. See Note 15, "New Accounting Pronouncements", contained elsewhere herein.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The following discussion of our exposure to various market risks contains “forward looking statements” regarding our estimates, assumptions and beliefs concerning our exposure. Although we believe these estimates and assumptions are reasonable in light of information currently available to us, we cannot provide assurance that these estimates will not materially differ from actual results due to the inherent unpredictability of interest rates, foreign currency rates and commodity prices as well as other factors. We do not use derivative financial instruments for speculative or trading purposes.

Interest Rate Risk

Our outstanding debt bears interest at variable rates and accordingly is sensitive to changes in interest rates. Based upon the balances of the variable rate debt at April 30, 2015, a hypothetical 1.0% increase or decrease in interest rates

would result in a $0.01 million additional pretax charge or credit to our operating results.
Foreign Currency Rate Risk
Our international operations have exposure to foreign currency rate risks, primarily due to fluctuations in the Euro, the British Pound and the Canadian dollar. From time to time, we enter into foreign exchange contracts associated with our operations to

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manage a portion of the foreign currency rate risk.
The notional and fair market values of these positions at April 30, 2015 and October 31, 2014, were as follows:

		Notional as indicated		Fair Value in $	
		April 30, 2015	October 31, 2014	April 30, 2015	October 31, 2014
Foreign currency derivatives:		(In thousands)			
Sell EUR, buy USD	EUR	7,555	$4,907	$289	$68
Sell CAD, buy USD	CAD	296	331	2	1
Sell GBP, buy USD	GBP	267	—	6	—
Buy EUR, sell GBP	EUR	97	—	(2)	—
Buy USD, sell EUR	USD	23	—	1	—
Buy GBP, sell EUR	GBP	5	—	—	—

At April 30, 2015 and October 31, 2014, we held foreign currency derivative contracts hedging cross-border intercompany and commercial activity for our insulating glass spacer business. Although these derivatives hedge our exposure to fluctuations in foreign currency rates, we do not apply hedge accounting and therefore, the change in the fair value of these foreign currency derivatives is recorded directly to other income and expense in the accompanying consolidated statements of income (loss). To the extent the gain or loss on the derivative instrument offsets the gain or loss from the remeasurement of the underlying foreign currency balance, changes in exchange rates should have no effect. See Note 10, "Derivative Instruments", contained elsewhere herein.

Commodity Price Risk

We purchase polyvinyl resin (PVC) as the significant raw material consumed in the manufacture of vinyl extrusions. We have a monthly resin adjuster in place with a majority of our customers and our resin supplier that is adjusted based upon published industry indices for resin prices for the prior month. This adjuster effectively shares the base pass-through price changes of PVC with our customers commensurate with the market at large. Our long-term exposure to changes in PVC prices is somewhat mitigated due to the contractual component of the resin adjuster program; however, there is a level of exposure to short-term volatility due to a one month lag and not all of our customer contracts include cost adjusters adequate to recover all exposure to such fluctuations. From time to time, we may lock in customer pricing for less than one year or make other customer concessions which result in us becoming exposed to fluctuations in resin pricing.

We maintain an oil-based materials surcharge on one of our major product lines. The surcharge is intended to offset the rising cost of products which are highly correlated to the price of oil, including butyl and other oil-based raw materials. The surcharge is in place with the majority of our customers who purchase these products and is adjusted monthly based upon the 90 day average published price for Brent crude. The oil-based raw materials purchased by us are subject to similar pricing schemes. Therefore, our long-term exposure to changes in oil-based raw material prices is significantly reduced under this surcharge program.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including the Chief Executive Officer and Chief Financial Officer, we have evaluated the effectiveness of our disclosure controls and procedures pursuant to Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (1934 Act) as of April 30, 2015. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as of April 30, 2015, the disclosure controls and procedures are effective.

Changes in Internal Control over Financial Reporting

There have been no changes in internal controls over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the 1934 Act) during the most recent fiscal quarter that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

PART II. OTHER INFORMATION
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds
Issuer Purchases of Equity Securities
On September 5, 2014, our Board of Directors approved a stock repurchase program authorizing us to use up to $75.0 million to repurchase shares of our common stock. For the period from September 5, 2014 through October 31, 2014, we purchased 1,316,326 shares at a cost of $24.2 million under this program. During the six months ended April 30, 2015, we purchased an additional 2,675,903 shares at a cost of $50.8 million. From inception of the program, we purchased 3,992,229 shares at a cost of $75.0 million. This program is now closed and no additional purchases are being made thereunder.
Set forth below is a table summarizing the program and the repurchase of shares during the quarter ended April 30, 2015.

	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum US Dollars Remaining that May Yet Be Used to Purchase Shares Under the Plans or Programs
February 1, 2015 through February 28, 2015	378,742	$19.42	378,742	—
March 1, 2015 through March 31, 2015	—	—	—	—
April 1, 2015 through April 30, 2015	—	—	—	—
Total	378,742	$19.42	378,742	

Item 6. Exhibits
The exhibits required to be furnished pursuant to Item 6 are listed in the Exhibit Index filed herewith, which Exhibit Index is incorporated herein by reference.

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SIGNATURES

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

	QUANEX BUILDING PRODUCTS CORPORATION
Date: June 3, 2015	/s/ Brent L. Korb
	Brent L. Korb
	Senior Vice President – Finance and Chief Financial Officer
	(Principal Financial Officer)

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EXHIBIT INDEX

Exhibit Number	Description of Exhibits
3.1	Certificate of Incorporation of the Registrant dated as of December 12, 2007, filed as Exhibit 3.1 of the Registrant’s Registration Statement on Form 10 (Reg. No. 001-33913) as filed with the Securities and Exchange Commission on January 11, 2008, and incorporated herein by reference.
3.2	Amended and Restated Bylaws of the Registrant dated as of August 25, 2011, filed as Exhibit 3.1 of the Registrant’s Current Report on Form 8-K (Reg. No. 001-33913) filed with the Securities and Exchange Commission on August 29, 2011, and incorporated herein by reference.
4.1	Form of Registrant’s Common Stock certificate, filed as Exhibit 4.1 of Amendment No. 1 to the Registrant’s Registration Statement on Form 10 (Reg. No. 001-33913) as filed with the Securities and Exchange Commission on February 14, 2008, and incorporated herein by reference.
4.2	Credit Agreement dated as of January 28, 2013, among the Company; certain of its subsidiaries as guarantors; Wells Fargo Bank, National Association, as administrative agent; Wells Fargo Securities, LLC, as lead arranger and syndication agent; and the lenders parties thereto, filed as Exhibit 10.1 of the Registrant’s Current Report on Form 8-K (Reg. No. 001-33913) as filed with the Securities and Exchange Commission on January 30, 2013, and incorporated herein by reference.
*31.1	Certification by chief executive officer pursuant to Rule 13a-14(a)/15d-14(a).
*31.2	Certification by chief financial officer pursuant to Rule 13a-14(a)/15d-14(a).
*32.1	Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
*101.INS	XBRL Instance Document
*101.SCH	XBRL Taxonomy Extension Schema Document
*101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
*101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
*101.LAB	XBRL Taxonomy Extension Label Linkbase Document
*101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

* Filed herewith
† Management Compensation or Incentive Plan
As permitted by Item 601(b)(4)(iii)(A) of Regulation S-K, the Registrant has not filed with this Quarterly Report on Form 10-Q certain instruments defining the rights of holders of long-term debt of the Registrant and its subsidiaries because the total amount of securities authorized under any of such instruments does not exceed 10% of the total assets of the Registrant and its subsidiaries on a consolidated basis. The Registrant agrees to furnish a copy of any such agreements to the Securities and Exchange Commission upon request.

inline; FONT-SIZE: 10pt; FONT-FAMILY: times new roman">Operating income (loss)

$
179,210

$
293,015

$
(104,670
)

$
(10,190
)

$
(252,982
)

$
104,383

Nine Months Ended October 28, 2007:

Revenue

$
1,752,438

$
420,353

$
507,959

$
195,281

$
19,099

$
2,895,130

Depreciation and amortization expense

$
26,051

$
6,073

$ 20,656

$ 16,775

$ 28,926

$ 98,481

Operating income (loss)

$ 500,182

$ 217,852

$ 37,245

$ 20,724

$ (202,156)

$ 573,847

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

	Three Months Ended		Nine Months Ended	
	October 26, 2008	October 28, 2007	October 26, 2008	October 28, 2007
	(In thousands)			
Revenue:				
China	$ 289,778	$ 345,198	$ 926,470	$ 880,941
Taiwan	215,434	353,558	879,140	943,515
Other Asia Pacific	181,835	193,045	520,689	441,661
United States	84,588	82,783	255,883	257,173
Other Americas	64,305	26,734	86,349	86,693
Europe	61,715	114,279	275,188	285,147
Total revenue	$ 897,655	$ 1,115,597	$ 2,943,719	$ 2,895,130

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

Revenue from significant customers, those representing approximately 10% or more of total revenue for the respective periods, is summarized as follows:

	Three Months Ended		Nine Months Ended	
	October 26, 2008	October 28, 2007	October 26, 2008	October 28, 2007
Revenue:				
Customer A	13 %	8%	11 %	6%
Customer B	12 %	4%	6 %	6%
Customer C	4 %	10%	6 %	9%
Customer D	6 %	9%	9 %	10%

Accounts receivable from significant customers, those representing approximately 10% or more of total trade accounts receivable for the respective periods, is summarized as follows:

	October 26, 2008	January 27, 2008
Accounts Receivable:		
Customer A	22%	4%
Customer B	5%	12%

Note 17 – 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. Level 1 valuations are obtained from real-time quotes for transactions in active exchange markets involving identical assets. Level 2 valuations are obtained from quoted market prices in active markets involving similar assets. Level 3 valuations are based on unobservable inputs to the valuation methodology and include our own data about assumptions market participants would use in pricing the asset or liability based on the best information available under the circumstances.

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

		Fair value measurement at reporting date using		
	October 26, 2008	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	High Level of Judgment (Level 3)
		(In thousands)		
Asset-backed securities (1)	$ 49,468	$ -	$ 49,468	$ -

Commercial paper (2)	13,382	-	13,382	-
Corporate debt securities (1)	200,444	-	200,444	-
Debt securities issued by United States Treasury (3)	119,734	-	119,734	-
Other debt securities issued by U.S. Government agencies (4)	322,904	-	322,904	-
Mortgage-backed securities issued by Government-sponsored entities (1)	154,201	-	154,201	-
Money market funds (5)	144,186	19,786		124,400
Total assets	$ 1,004,319	$ 19,786	$ 860,133	$ 124,400

(1) Included in Marketable securities on the Condensed Consolidated Balance Sheet.
(2) Includes $11,388 in Cash and cash equivalents and $1,994 in Marketable securities on the Condensed Consolidated Balance Sheet.
(3) Includes $61,673 in Cash and cash equivalents and $58,061 in Marketable securities on the Condensed Consolidated Balance Sheet.
(4) Includes $69,634 in Cash and cash equivalents and $253,270 in Marketable securities on the Condensed Consolidated Balance Sheet.
(5) Includes $19,786 in Cash and cash equivalents and $124,400 in Marketable securities on the Condensed Consolidated Balance Sheet.

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

For our money market funds that were held by the International Reserve Fund at October 26, 2008, we assessed the fair value of the money market funds by considering the underlying securities held by the International Reserve Fund. As the International Reserve Fund has halted redemption requests and is currently believed to be holding all of their securities until maturity, we valued the underlying securities held by the International Reserve Fund at their maturity value using an income approach. Certain of the debt securities held by the International Reserve Fund were issued by companies that have filed for bankruptcy as of October 26, 2008 and, as such, our valuation of those securities was zero. The net result was that, as of October 26, 2008, we estimated the fair value of the International Reserve Fund's investments to be 95.7% of their last-known value prior to October 26, 2008. Based on this assessment, we recorded an other than temporary impairment charge of $5.6 million for the three months ended October 26, 2008. Due to the inherent subjectivity and the significant judgment involved in the valuation of our holdings of International Reserve Fund, we have classified these securities under the Level 3 fair value hierarchy.

As of October 26, 2008, our money market investment in the International Reserve Fund, which was valued at $124.4 million, net of other than temporary impairment charges, was classified as marketable securities in our Condensed Consolidated Balance Sheet due to the halting of redemption requests in September 2008 by the International Reserve Fund. We expect to receive the proceeds of our investment in the International Reserve Fund by no later than October 2009, when all of the underlying securities held by the International Reserve Fund are scheduled to have matured. However, redemptions from the International Reserve Fund are currently subject to pending litigation, which could cause further delay in receipt of our funds.

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

	Three months ended October 26, 2008	Nine months ended October 26, 2008
Balance, beginning of period	$ -	$ -
Transfer into Level 3	130,000	130,000
Other than temporary impairment	(5,600)	(5,600)
Balance, end of period	$ 124,400	$ 124,400

Total financial assets at fair value classified within Level 3 were 3.4% of total assets on our Condensed Consolidated Balance Sheet as of October 26, 2008.

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

Forward-Looking Statements:

When used in this Quarterly Report on Form 10-Q, the words "believes," "plans," "estimates," "anticipates," "expects," "intends," "allows," "can," "will" and similar expressions are intended to identify forward-looking statements. These statements relate to future periods and include, but are not limited to, statements as to: the features, benefits, capabilities, performance, impact and production of our products and technologies; product, manufacturing, design or software defects and the impact of such defects; defects in materials used to manufacture a product; causes of product defects; our reliance on third parties to manufacture, assemble and test our products; reliance on a limited number of customers and suppliers; new products or markets; design wins; our market position; our competition, sources of competition and our competitive position; our strategic relationships; average selling prices; seasonality; customer demand; growth; our international operations; our ability to attract and retain qualified personnel; our inventory; acquisitions and investments; stock options; the impact of stock-based compensation expense; our financial results; our tax positions; mix and sources of revenue; capital and operating expenditures; our cash; liquidity; our investment portfolio and marketable securities; our exchange rate risk; our stock repurchase program; our internal control over financial reporting; our disclosure controls and procedures; recent accounting pronouncements; our intellectual property; compliance with environmental laws and regulations; ongoing and potential litigation. Forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from those projected. These risks and uncertainties include, but are not limited to, the risks discussed below as well as difficulties associated with: fluctuations in general economic conditions in the United States and worldwide; difficulties in entering new markets; slower than expected development of a new market; conducting international operations; slower than anticipated growth; forecasting customer demand; product, manufacturing, software and design defects; defects in product design or materials used to manufacture a product; supply constraints; the impact of competitive pricing pressures; unanticipated decreases in average selling prices; increased sales of lower margin products; international and political conditions; changes in international laws; fluctuations in the global credit market; fixed operating expenses; our inventory levels; fluctuations in investments and the securities market; changes in customers' purchasing behaviors; the concentration of sales of our products to a limited number of customers; decreases in demand for our products; delays in the development of new products by us or our partners; delays in volume production of our products; developments in and expenses related to litigation or regulatory actions; our inability to realize the benefits of acquisitions; and the matters set forth under Part II, Item 1A. - Risk Factors. These forward-looking statements speak only as of the date hereof. Except as required by law, we expressly disclaim any obligation or undertaking to release publicly any updates or revisions to any forward-looking statements contained herein to reflect any change in our expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

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

NVIDIA, GeForce, SLI, Hybrid SLI, GoForce, Quadro, NVIDIA Quadro, NVIDIA nForce, Tesla, Tegra, CUDA, NVIDIA APX, PhysX, Ageia, Mental Images, and the NVIDIA logo are our trademarks and/or registered trademarks in the United States and other countries that are used in this document. We may also refer to trademarks of other corporations and organizations in this document.

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 27, 2008 and Part II, "Item 1A. Risk Factors", of our Condensed Consolidated Financial Statements and related Notes thereto, as well as other cautionary statements and risks described elsewhere in this Quarterly Report on Form

10-Q, before deciding to purchase, hold or sell shares of our common stock.

Overview

Our Company

NVIDIA Corporation is the worldwide leader in visual computing technologies and the inventor of the graphic processing unit, or the GPU. Our products are designed to generate realistic, interactive graphics on consumer and professional computing devices. We serve the entertainment and consumer market with our GeForce products, the professional design and visualization market with our Quadro products, and the high-performance computing market with our Tesla products. We have four major product-line operating segments: the GPU Business, the professional solutions business, or PSB, the media and communications processor, or MCP, business, and the consumer products business, or CPB.

Our GPU business is comprised primarily of our GeForce products that support desktop and notebook personal computers, or PCs, plus memory products. Our PSB is comprised of our NVIDIA Quadro professional workstation products and other professional graphics products, including our NVIDIA Tesla high-performance computing products. Our MCP business is comprised of NVIDIA nForce core logic and motherboard GPU, or mGPU products. Our CPB is comprised of our Tegra and GoForce mobile brands and products that support handheld personal media players, or PMPs, personal digital assistants, or PDAs, cellular phones and other handheld devices. CPB also includes license, royalty, other revenue and associated costs related to video game consoles and other digital consumer electronics devices. Original equipment manufacturers, original design manufacturers, add-in-card manufacturers, system builders and consumer electronics companies worldwide utilize our processors as a core component of their entertainment, business and professional solutions.

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

Recent Developments, Future Objectives and Challenges

GPU Business

During the first nine months of fiscal year 2009, we launched several new GPUs in the GeForce family. The product launches included the GeForce 9600 GT, which provides more than double the performance of our previous GeForce 8600 GTS; the GeForce 9800 GX2, which provides a new dual GPU board featuring Quad SLI technology; and the GeForce 9800 GTX, which is a flexible GPU that supports both two-way and three-way Scalable Link Interface, or SLI, technology. Additionally, we also launched the GeForce 8800 GT, which is the first after-market consumer graphics card for the Mac Pro and is sold directly by us.

On February 10, 2008, we completed our acquisition of Ageia Technologies, Inc., or Ageia, an industry leader in gaming physics technology. Ageia's PhysX software is widely adopted in several PhysX-based games that are shipping or in development on Sony Playstation 3, Microsoft Xbox 360, Nintendo Wii, and gaming PCs. We believe that the combination of the GPU and physics engine brands will result in an enhanced visual experience for the gaming world.

During the second quarter of fiscal year 2009, we launched the GeForce GTX 280 and 260 GPUs. These products represent the second-generation of our unified architecture. Based on a comparison between the GeForce GTX 280 and the GeForce 8800 Ultra in a variety of benchmarks and resolutions, the GeForce GTX 280 and 260 GPUs deliver 50 percent more gaming performance over our previous GeForce 8800 Ultra GPU. We also launched the GeForce 9800 GTX+, GeForce 9800 GT, and GeForce 9500 GT GPUs that provide support for our PhysX physics engine and CUDA parallel processing across a wide range of price segments.

Professional Solutions Business

During the first quarter of fiscal year 2009, we launched the Quadro FX 3600M Professional, which is among the highest performing notebook GPUs.

In the second quarter of fiscal year 2009, we launched the Tesla C1060 computing processor and the S1070 computing system, which is among the first teraflop processors and has a 1U system with up to four teraflops of performance.

During the third quarter of fiscal year 2009, we launched five new Quadro FX notebook GPUs that spanned from ultra-high performance to ultra mobility. We also launched the first desk side visual supercomputer with the Quadro Plex D Series. At this year's SIGGRAPH 2008 conference, we set a new milestone in computer graphics by demonstrating the world's first real-time fully-interactive ray tracer on the new Quadro Plex D2 system. We also launched the NVIDIA Quadro CX, the industry's first accelerator for Adobe's Creative Suite 4, or Adobe CS4, content creation software. Adobe CS4 software has added optimization to take advantage of GPU technology. The Quadro CX is specifically designed to enhance the performance of the Adobe CS4 product line and to give creative professionals the ultimate performance and productivity.

MCP Business

During the first quarter of fiscal year 2009, we shipped Hybrid SLI DX10 mGPUs – the GeForce 8000 GPU series. The GeForce 8000 GPU series includes GeForce Boost Hybrid SLI technology, which is designed to double performance when paired with a GeForce 8 series desktop GPU. Additionally, we also launched the NVIDIA nForce 790i Ultra SLI MCP, which is one of the industry's highly rated overclockable platform for Intel processors.

During the second quarter of fiscal year 2009, we launched the GeForce 9M series of notebook GPUs that enables improved performance in notebooks with Hybrid SLI technology and PhysX technology. We also launched SLI for Intel Broomfield CPU platforms. When paired with the nForce 200 SLI MCP, Intel's Bloomfield CPU and Tylersburg core logic chipset will deliver NVIDIA three-way SLI technology with up to a 2.8 times performance boost over traditional single graphics card platforms.

During the third quarter of fiscal year 2009, we launched the GeForce 9400M mGPU along with Apple, Inc., or Apple, for their new lineup of Mac notebooks. The GeForce 9400M integrates three complex chips – the northbridge, the input-output network processor, and the GeForce GPU into a single chip and, as a result, significantly improves performance over Intel integrated graphics. Apple's MacBook and MacBook Air notebook computers come standard with the GeForce 9400M. Apple's MacBook Pro notebook computer comes standard with the hybrid combination of two GeForce GPUs - a GeForce 9400M for maximum battery life and a GeForce 9600M GT for high performance mode. We also launched the GeForce 9400 and 9300 mGPUs for Intel desktop PCs. These new mGPUs set a new price/performance standard for integrated graphics by combining the power of three different chips into one highly compact and efficient GPU.

Consumer Products Business

During the first nine months of fiscal year 2009, we launched the NVIDIA APX 2500 application processor. The Tegra APX 2500 is a computer-on-a-chip designed to meet the growing multimedia demands of today's mobile phone and entertainment user. We believe that the mobile application processor is an area where we can add a significant amount of value and we also believe it represents a revenue growth opportunity.

During the second quarter of fiscal year 2009, we launched the Tegra 600 and 650 that represent a single-chip heterogeneous computer architecture designed for low-power mobile computing devices.

Restructuring Charges

On September 18, 2008, we announced a workforce reduction to allow for continued investment in strategic growth areas, which was completed in the third quarter of fiscal year 2009. As a result, we eliminated approximately 360 positions worldwide, or about 6.5% of our global workforce. During the third quarter of fiscal year 2009, expenses associated with the workforce reduction, which were comprised primarily of severance and benefits payments to these employees, totaled $8.3 million. The remaining accrual of $0.8 million as of October 26, 2008 relates to severance and benefits payments, which are expected to be paid over the fourth quarter of fiscal year 2009. We anticipate that the expected decrease in operating expenses from this action will be offset by continued investment in strategic growth areas.

Product Defect

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

In July 2008, we recorded a $196.0 million charge against cost of revenue to cover anticipated customer warranty, repair, return, replacement and other associated costs arising from a weak die/packaging material set in certain versions of our previous generation MCP and GPU products used in notebook systems. All of our newly manufactured products and all of our products that are currently shipping in volume have a different material set that we believe is more robust.

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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. While we have not been able to determine a root cause for these failures, testing suggests a weak material set of die/package combination, system thermal management designs, and customer use patterns are contributing factors. 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 MCP and GPU products in their notebook system designs. We intend to fully support our customers in their repair and replacement of these impacted MCP and GPU products that fail, and their other efforts to mitigate the consequences of these failures.

We continue to engage in discussions with our supply chain regarding reimbursement to us for some or all of the costs we have incurred and may incur in the future relating to the weak material set. We also continue to seek to access our insurance coverage. However, there can be no assurance that we will recover any such reimbursement. 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 MCP or GPU products.

In September, October and November 2008, several putative class action lawsuits were filed against us, asserting various claims related to the impacted MCP and GPU products. Please refer to Note 13 of the Notes to Condensed Consolidated Financial Statements for further information regarding this litigation.

Dependence on PC market

We derive and expect to continue to derive the majority of our revenue from the sale or license of products for use in the desktop PC and notebook PC markets, including professional workstations. A reduction in sales of PCs, or a reduction in the growth rate of PC sales, may reduce demand for our products. For the first nine months of fiscal year 2009, sales of our desktop GPU and memory products decreased approximately 11% and 53%, respectively, as compared to the first nine months of fiscal year 2008. Changes in demand for our products could be large and sudden. Since PC manufacturers often build inventories during periods of anticipated growth, they may be left with excess inventories if growth slows or if they incorrectly forecast product transitions. In these cases, PC manufacturers may abruptly suspend substantially all purchases of additional inventory from suppliers like us until their excess inventory has been absorbed, which would have a negative impact on our financial results.

Seasonality

Historically, we have seen stronger revenue in the second half of our fiscal year than in the first half of our fiscal year, primarily due to back-to-school and holiday demand. While our revenue has generally followed this seasonal trend, there can be no assurance that this trend will continue. Our revenue outlook for the fourth quarter of fiscal year 2009 includes a wider than typical range due to the uncertainty regarding how the current economic environment will impact our business. We expect revenue to decline slightly during the fourth quarter of fiscal year 2009 as compared to the third quarter of fiscal year 2009.

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 four operating segments to our CODM: the GPU business, which is comprised primarily of our GeForce products that support desktop and notebook personal computers, or PCs, plus memory products; the PSB, which is comprised of our NVIDIA Quadro professional workstation products and other professional graphics products, including our NVIDIA Tesla high-performance computing products; the MCP business which is comprised of NVIDIA nForce core logic and mGPU products; and our CPB, which is comprised of our Tegra and GoForce mobile brands and products that support handheld PMPs, PDAs, cellular phones and other handheld devices. CPB also includes license, royalty, other revenue and associated costs related to video game consoles and other digital consumer electronics devices.

In addition to these operating segments, we have the "All Other" category that includes human resources, legal, finance, general administration, restructuring charges and corporate marketing expenses, which total \$88.5 million and \$66.2 million for third quarter of fiscal years 2009 and 2008, respectively, and total \$245.4 million and \$197.0 million for the first nine months of fiscal years 2009 and 2008, respectively, that we do not allocate to our other operating segments as these expenses are not included in the segment operating performance measures evaluated by our CODM. "All Other" also includes the results of operations of other miscellaneous reporting segments that are neither individually reportable, nor aggregated with another operating segment. Revenue in the "All Other" category is primarily derived from sales of components.

Results of Operations

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

	Three Months Ended		Nine Months Ended	
	October 26, 2008	October 28, 2007	October 26, 2008	October 28, 2007
Revenue	100.0%	100.0%	100.0%	100.0%
Cost of revenue	59.0	53.8	64.9	54.4
Gross profit	41.0	46.2	35.1	45.6
Operating expenses:				
Research and development	23.7	16.1	21.9	17.1
Sales, general and administrative	10.1	7.9	9.4	8.6
Restructuring charges	0.9	-	0.3	-
Total operating expenses	34.7	24.0	31.6	25.7
Operating income	6.3	22.2	3.5	19.9
Interest and other income, net	0.5	1.7	0.8	1.6
Income before income tax expense (benefit)	6.8	23.9	4.3	21.5
Income tax expense (benefit)	(0.1)	2.8	0.3	2.8
Net income	6.9%	21.1%	4.0%	18.7%

Three and nine months ended October 26, 2008 and October 28, 2007

Revenue

Revenue was $897.7 million for our third quarter of fiscal year 2009, compared to $1.12 billion for our third quarter of fiscal year 2008, which represents a decrease of 20%. Revenue was $2.94 billion for the first nine months of fiscal year 2009 and $2.90 billion for the first nine months of fiscal year 2008, which represented an increase of 2%. We expect revenue to decline slightly during the fourth quarter of fiscal year 2009 as compared to the third quarter of fiscal year 2009. A discussion of our revenue results for each of our operating segments is as follows:

GPU Business. GPU Business revenue decreased by 33% to $461.5 million in the third quarter of fiscal year 2009, compared to $689.9 million for the third quarter of fiscal year 2008. This decrease was primarily due to decreased sales of our desktop GPU and memory products. Sales of our desktop GPU and memory products decreased by approximately 42% and 61%, respectively, compared to the third quarter of fiscal year 2008. These decreases were primarily due to a decline in the Standalone Desktop market segment as reported in the PC Graphics October 2008 Report from Mercury Research, driven by a combination of market migration from desktop PCs towards notebook PCs and an overall market shift in the mix of products towards lower priced products. The decline in revenue during the third quarter of fiscal year 2009 also reflects the impact of average sales price regression we experienced in our desktop GPU products as a result of increased competition. In addition, a decline in our share position caused by increased competition, as also reported in the PC Graphics October 2008 Report from Mercury Research, also contributed to the decrease in our desktop GPU revenue. Sales of our NVIDIA notebook GPU products in the third quarter of fiscal year 2009 decreased by 2% when compared to the third quarter of fiscal year 2008, as higher unit sales aided by the market move toward notebook PCs were offset by lower average sales prices in the third quarter of fiscal year 2009 when compared to the third quarter of fiscal year 2008.

GPU Business revenue decreased by 5% to $1.67 billion for the first nine months of fiscal year 2009 compared to $1.75 billion for the first nine months of fiscal year 2008. This decrease was primarily due to decreased sales of our desktop GPU and memory products, offset by increased sales of our notebook GPU products. Sales of our desktop

GPU and memory products decreased approximately 11% and 53%, respectively, as compared to the first nine months of fiscal year 2008. These decreases were primarily due to a decline in the Standalone Desktop market segment as reported in the PC Graphics October 2008 Report from Mercury Research, driven by a combination of market migration from desktop PCs towards notebook PCs and an overall market shift in the mix of products towards lower priced products. The decline in revenue during the first nine months of fiscal year 2009 also reflects the impact of average sales price regression we experienced in our desktop GPU products as a result of increased competition. In addition, a decline in our share position caused by increased competition, as also reported in the PC Graphics October 2008 Report from Mercury Research, also contributed to the decrease in our desktop GPU revenue. Sales of our NVIDIA notebook GPU products increased approximately 34% when compared to the first nine months of fiscal year 2008, due primarily to higher unit sales aided by the market move toward notebook PCs over desktop PCs.

PSB. PSB revenue increased by 31% to $199.3 million in the third quarter of fiscal year 2009, compared to $152.2 million for the third quarter of fiscal year 2008. PSB revenue increased by 39% to $582.4 million for the first nine months of fiscal year 2009 as compared to $420.4 million for the first nine months of fiscal year 2008. Our NVIDIA professional workstation product sales increased due to an overall increase in shipments of boards and chips as compared to the third quarter and first nine months of fiscal year 2008 due to strong demand and our transition from previous generations of NVIDIA Quadro professional workstation products to GeForce 8-based and GeForce 9-based products. Sales of NVIDIA Quadro CX for Adobe's CS4 software, which we launched in the third quarter of fiscal year 2009, also contributed towards the increase in sales in the third quarter and first nine months of fiscal year 2009.

MCP Business. MCP Business revenue of $197.6 million in the third quarter of fiscal year 2009 was relatively flat when compared to revenue of $198.2 million for the third quarter of fiscal year 2008. A decrease in sales of our AMD-based platform products was offset by an increase in sales of our Intel-based platform products as compared to the third quarter of fiscal year 2008.

MCP Business revenue increased by 10% to $559.4 million for the first nine months of fiscal year 2009 as compared to $508.0 million for first nine months of fiscal year 2008. The increase was a result of an approximately 230% increase in sales of our Intel-based platform products while sales of our AMD-based platform products decreased by 19% as compared to the first nine months of fiscal year 2008.

CPB. CPB revenue decreased by 48% to $34.2 million for the third quarter of fiscal year 2009, compared to $65.9 million for the third quarter of fiscal year 2008. CPB revenue decreased by 43% to $111.3 million for the first nine months of fiscal year 2009 as compared to $195.3 million for the first nine months of fiscal year 2008. The decline in CPB revenue is primarily driven by a combination of a decrease in revenue from our cell phone products, a decrease in revenue from our contractual development arrangements with Sony Computer Entertainment, or SCE, and a drop in royalties from SCE resulting from a decrease in the number of units shipped due to the transition of the PlayStation3 to a new process node, which took place earlier in the fiscal year.

Concentration of Revenue

Revenue from sales to customers outside of the United States and other Americas accounted for 83% and 90% of total revenue for the third quarter of fiscal years 2009 and 2008, respectively, and 88% for the first nine months for each fiscal year 2009 and 2008. 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 in a different location.

Revenue from significant customers, those representing approximately 10% or more of total revenue for the respective periods, is summarized as follows:

	Three Months Ended		Nine Months Ended	
	October 26, 2008	October 28, 2007	October 26, 2008	October 28, 2007
Revenue:				
Customer A	13 %	8%	11 %	6%
Customer B	12 %	4%	6 %	6%
Customer C	4 %	10%	6 %	9%
Customer D	6 %	9%	9 %	10%

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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 and service arrangements.

Gross margin is the percentage of gross profit to revenue. Our gross margin can vary in any period depending on a variety of factors including the mix of types of products sold. Product mix is often difficult to estimate with accuracy. Therefore, if we experience product transition or competitive 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 gross margin was 41.0% and 46.2% for the third quarter of fiscal years 2009 and 2008, respectively. The decline in gross margin for the third quarter of fiscal year 2009 reflects the impact of average sales price regression we experienced in our desktop GPU products as a result of increased competition. Our gross margin was 35.1% and 45.6% for the first nine months of fiscal years 2009 and 2008, respectively. The decline in gross margin for the first nine months of fiscal year 2009 reflects a $196.0 million charge against cost of revenue to cover anticipated customer warranty, repair, return, replacement and associated costs arising from a weak die/packaging material set in certain versions of our previous generation MCP and GPU products used in notebook systems, as well as the impact of average sales price regression we experienced in our desktop GPU products as a result of increased competition.

We will continue to focus on improving our gross margin. We expect it to remain relatively flat during the fourth quarter of fiscal year 2009 when compared to the third quarter of fiscal year 2009. 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 during the third quarter of fiscal year 2009 as compared to the third quarter of fiscal year 2008, as well as during the first nine months of fiscal year 2008 as compared to the first nine months of fiscal year 2007. This decrease was primarily due to average sales price regression in our GeForce 9-based and previous generations of desktop products. Additionally, the gross margin during the first nine months of fiscal year 2009 declined as compared to the first nine months of fiscal year 2008, primarily due to a charge against cost of revenue to cover anticipated customer warranty, repair, return, replacement and associated costs arising from a weak die/packaging material set in certain versions of our previous generation GPU products used in notebook systems.

PSB. The gross margin of our PSB increased slightly during the third quarter of fiscal year 2009 as compared to the third quarter fiscal year 2008, as well as during the first nine months of fiscal year 2009 as compared to the first nine months of fiscal year 2008. This increase was primarily due to increased sales of our GeForce 9-based NVIDIA Quadro products, which began selling in the fourth quarter of fiscal year 2008, and GeForce 8-based NVIDIA Quadro products, which generally have higher gross margins than our previous generations of NVIDIA Quadro products.

MCP Business. The gross margin of our MCP Business decreased during the third quarter of fiscal year 2009 as compared to the third quarter fiscal year 2008, as well as during the first nine months of fiscal year 2009 as compared to the first nine months of fiscal year 2008 due to decline in the margins of our AMD and Intel-based products. During the first nine months of fiscal year 2009, gross margins declined primarily due to a charge against cost of revenue to cover anticipated customer warranty, repair, return, replacement and associated costs arising from a weak die/packaging material set in certain versions of our previous generation MCP products used in notebook systems.

CPB. The gross margin of our CPB increased during the third quarter of fiscal year 2009 as compared to the third quarter fiscal year 2008, as well as during the first nine months of fiscal year 2009 as compared to the first nine months of fiscal year 2008. This increase was primarily due to changes in the product mix in our CPB product lines. We experienced greater revenue decline in our lower margin cell phone and other handheld devices product lines as compared to higher margin SCE transactions in the current year.

Operating Expenses

	Three Months Ended				Nine Months Ended			
	October 26, 2008	October 28, 2007	$ Change	% Change	October 26, 2008	October 28, 2007	$ Change	% Change
	(in millions)				(in millions)			
Research and development expenses	$ 212.4	$ 179.5	$ 32.9	18%	$ 644.1	$ 495.8	$ 148.3	30%
Sales, general and administrative expenses	90.3	88.2	2.1	2%	275.8	250.0	25.8	10%
Restructuring charges	8.3	-	8.3	100%	8.3	-	8.3	100%
Total operating expenses	$ 311.0	$ 267.7	$ 43.3	16%	$ 928.2	$ 745.8	$ 182.4	24%
Research and development as a percentage of net revenue	23.7%	16.1%			21.9%	17.1%		
Sales, general and administrative as a percentage of net revenue	10.1%	7.9%			9.4%	8.6%		

Research and Development

Research and development expenses were $212.4 million and $179.5 million during the third quarter of fiscal years 2009 and 2008, respectively, an increase of $32.9 million, or 18%. The increase is primarily related to an increase in salaries and benefits by approximately $12.8 million as a result of the net addition of approximately 700 personnel in departments related to research and development functions, offset by lower expenses during the third quarter of fiscal year 2009 related to our variable compensation programs when compared to the third quarter of fiscal year 2008. Development expenses increased by $2.6 million primarily as a result of an increase in prototype materials used and higher engineering consumption. Stock-based compensation expense increased by $4.1 million primarily because of the impact of new hire and semi-annual stock awards granted subsequent to the third quarter of fiscal year 2008, offset by a reduction in expense related to older stock awards that were almost fully vested and for which the related expense had been almost fully amortized by the end of the first quarter of fiscal year 2009. Other increases in research and development expenses are primarily related to costs that were driven by personnel growth, including depreciation and amortization, facilities, and computer software and equipment.

Research and development expenses were $644.1 million and $495.8 million in the first nine months of fiscal years 2009 and 2008, respectively, an increase of 148.3 million, or 30%. The increase is primarily related to an increase in salaries and benefits by approximately $56.9 million as a result of the net addition of approximately 700 personnel in departments related to research and development functions, offset by lower expenses during the first nine months of fiscal year 2009 related to our variable compensation programs when compared to the first nine months of fiscal year 2008. Development expenses increased by $17.5 million primarily as a result of an increase in prototype materials used and higher engineering consumption due to higher volume of activity related to new product introductions in the current fiscal year. Stock-based compensation expense increased by $14.0 million primarily because of the impact of new hire and semi-annual stock awards granted subsequent to the third quarter of fiscal year 2008, offset by a reduction in expense related to older stock awards that were almost fully vested and for which the related expense had been almost fully amortized by the end of the first quarter of fiscal year 2009. Other increases in research and development expenses are primarily related to costs that were driven by personnel growth, including depreciation and amortization, facilities, and computer software and equipment.

While we will continue to monitor our allocation of resources to research and development, we expect these expenses to increase in absolute dollars in the foreseeable future due to the increased complexity and greater number of products under development. 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.

Sales, General and Administrative

Sales, general and administrative expenses were $90.3 million and $88.2 million during the third quarter of fiscal years 2009 and 2008, respectively, an increase of $2.1 million, or 2%. Labor and related expenses decreased by $8.6 million due a headcount decline of approximately 7% as well as lower expenses during the third quarter of fiscal year 2009 related to our variable compensation programs when compared to the third quarter of fiscal 2008. Outside professional fees increased by $5.6 million primarily due to increased legal fees pertaining to ongoing litigation matters described in Note 13 of the Notes to Condensed Consolidated Financial Statements. Marketing and advertising expenses increased by $8.4 million, primarily due to increased advertising campaign related activities and trade shows in the current quarter. Depreciation and amortization expense increased by $4.7 million primarily due to amortization of intangible assets acquired from our acquisitions of Mental Images and Ageia; and from increased capital expenditures. Stock-based compensation expense increased by $1.3 million primarily due to the impact of new hire and semi-annual stock awards granted subsequent to the third quarter of fiscal year 2008, offset by a reduction in expense related to older stock awards that were almost fully vested and for which the related expense had been almost fully amortized by the end of the first quarter of fiscal year 2009.

Sales, general and administrative expenses were $275.8 million and $250.0 million for the first nine months of fiscal years 2009 and 2008, respectively, an increase of $25.8 million, or 10%. Labor and related expenses decreased by $4.8 million or approximately 3%, primarily due to lower expenses during the first nine months of fiscal year 2009 related to our variable compensation programs when compared to the first nine months of fiscal year 2008. Stock-based compensation expense increased by $6.0 million primarily due to the impact of new hire and semi-annual stock awards granted subsequent to the third quarter of fiscal year 2008, offset by a reduction in expense related to older stock awards that were almost fully vested and for which the related expense had been almost fully amortized by the end of the first quarter of fiscal year 2009. Outside professional fees increased by $14.8 million, primarily due to legal fees related to ongoing litigation matters described in Note 13 of the Notes to Condensed Consolidated Financial Statements. Marketing and advertising expenses increased by $15.8 million, primarily due to expenses related to a worldwide sales conference, increased advertising campaign and trade show costs, and other marketing related activities.

Restructuring Charges

On September 18, 2008, we announced a workforce reduction to allow for continued investment in strategic growth areas, which was completed in the third quarter of fiscal year 2009. As a result, we eliminated approximately 360 positions worldwide, or about 6.5% of our global workforce. During the third quarter of fiscal year 2009, expenses associated with the workforce reduction, which were comprised primarily of severance and benefits payments to these employees, totaled $8.3 million. The remaining accrual of $0.8 million as of October 26, 2008 relates to severance and benefits payments, which are expected to be paid during the fourth quarter of fiscal year 2009. We anticipate that the expected decrease in operating expenses from this action will be offset by continued investment in strategic growth areas.

We expect operating expenses to be relatively flat in the fourth quarter of fiscal year 2009 compared to the third quarter of fiscal year 2009.

Interest Income

Interest income consists of interest earned on cash, cash equivalents and marketable securities. Interest income was $9.4 million and $17.4 million in the third quarter of fiscal years 2009 and 2008, respectively, a decrease of $8.0 million. Interest income was $35.9 million and $46.3 million for the first nine months of fiscal years 2009 and 2008, respectively, a decrease of $10.4 million. These decreases were primarily a result of the fall in interest rates and our relatively lower balances for cash, cash equivalents, and marketable securities during the first nine months of fiscal year 2009 when compared to the first nine months of fiscal year 2008.

Other Income (expense), net

Other income (expense) was $(5.2) million and $1.5 million in the third quarter of fiscal years 2009 and 2008, respectively, a decrease of $6.7 million. Other income (expense) was $(12.8) million and $1.3 million for the first nine months of fiscal year 2009 and fiscal year 2008, respectively, a decrease of $14.1 million. These decreases were primarily due to other than temporary impairment charges of $8.8 million and $9.9 million that we recorded during the three and nine months ended October 26, 2008, respectively. These charges include $5.6 million towards the other than temporary impairment of our investment in the Reserve International Liquidity Fund, Ltd., or the International Reserve Fund. Please refer to Note 17 of the Notes to the Condensed Consolidated Financial Statements for further details.

Income Taxes

We recognized income tax expense (benefit) of ($0.7) million and $31.1 million for the third quarters of fiscal year 2009 and 2008, respectively, and $9.8 million and $80.8 million for the first nine months of fiscal years 2009 and 2008, respectively. Income tax expense (benefit) as a percentage of income before taxes, or our effective tax rate, was (1.2%) and 11.7% for the third quarters of fiscal years 2009 and 2008, respectively, and 7.7% and 13.0% for the nine months of fiscal years 2009 and 2008, respectively. Our effective tax rate is lower than the United States federal statutory tax rate of 35.0% due primarily to income earned in lower tax jurisdictions and the U.S. tax benefit of the federal research tax credits available in the respective periods.

Our effective tax rate for the first nine months of fiscal year 2009 of 7.7% was lower than our effective tax rate of 13.0% for the first nine months of fiscal year 2008 due primarily to a favorable impact from the expiration of statutes of limitations in certain non-U.S. jurisdictions and due to the reinstatement of the U.S. federal research tax credit under the Emergency Economic Stabilization Act of 2008, which was signed into law on October 3, 2008 and was retroactive to January 1, 2008.

During the second quarter of fiscal year 2009, the Internal Revenue Service closed its review of our U.S. federal income tax returns for fiscal year 2004 through 2006 with no material changes to our income tax returns as filed. However, due to net operating losses generated in those and other tax years, we remain subject to future examination of our U.S. federal income tax returns beginning in fiscal year 2002 through fiscal year 2008. For the first nine months of fiscal year 2009, there have been no other material changes to our tax years that remain subject to examination by major tax jurisdictions. Additionally, there have been no material changes to our unrecognized tax benefits and any related interest or penalties from our fiscal year ended January 27, 2008.

Liquidity and Capital Resources

	As of October 26, 2008	As of January 27, 2008
	(In millions)	
Cash and cash equivalents	$ 461.3	$ 727.0
Marketable securities	843.6	1,082.5
Cash, cash equivalents, and marketable securities	$ 1,304.9	$ 1,809.5

	Nine Months Ended	
	October 26, 2008	October 28, 2007
	(In millions)	
Net cash provided by operating activities	$ 269.2	$ 1,017.7
Net cash used in investing activities	$ (178.0)	$ (335.4)
Net cash used in financing activities	$ (356.9)	$ (170.0)

As of October 26, 2008, we had $1.30 billion in cash, cash equivalents and marketable securities, a decrease of $504.6 million from $1.81 billion at the end of fiscal year 2008. Our portfolio of cash equivalents and marketable securities is managed by several financial institutions. Our investment policy requires the purchase of top-tier investment grade securities, the diversification of asset type and includes certain limits on our portfolio duration.

Operating activities

Operating activities generated cash of $269.2 million and $1,017.7 million during the first nine months of fiscal years 2009 and 2008, respectively. Our operating cash flows decreased due to the decrease in our net income plus the impact of non-cash charges to earnings and deferred income taxes during the comparable periods. Additionally, changes in operating assets and liabilities resulted in a net decrease in cash flow from operations. The changes in operating assets and liabilities resulted from the timing of payments to vendors and a significant increase in inventories. The increase in inventories was due primarily to increases in our newer GPU and MCP products.

Investing activities

Investing activities have consisted primarily of purchases and sales of marketable securities, acquisition of businesses and purchases of property and equipment, which includes purchases of property, leasehold improvements for our facilities and intangible assets. Investing activities used cash of $178.0 million and $335.4 million during the first nine months of fiscal years 2009 and 2008, respectively. Investing activities for the first nine months of fiscal year 2009 used cash of approximately $150.0 million for a property that includes approximately 25 acres of land and ten commercial buildings in Santa Clara, California. Capital expenditures also included new research and development equipment, testing equipment to support our increased production requirements, technology licenses, software, intangible assets and leasehold improvements at our campus and international offices. Additionally, we acquired Ageia during the first quarter of fiscal year 2009. The cash inflow from maturities of marketable securities provided cash of $1.13 billion, which partially offset the expenditures described above.

We expect to spend approximately $40 million to $60 million for capital expenditures that are typical to our business during the remainder of fiscal year 2009, primarily for property development, leasehold improvements, software licenses, emulation equipment, computers and engineering workstations. We are also currently evaluating plans to construct a new campus in Santa Clara, California. If we move forward with these plans, we may be required to fund significant construction costs using our cash, cash equivalents and marketable securities. While we expect that we will have sufficient balances of cash, cash equivalents and marketable securities available for this purpose, there is no assurance that we will not need to raise additional debt financing in order to fund this project. Such additional financing, if required, may not be available on favorable terms, or at all. In addition, we may continue to use cash in connection with the acquisition of new businesses or assets.

Financing activities

Financing activities used cash of $356.9 million and $170.0 million during the first nine months of fiscal years 2009 and 2008, respectively. Net cash used by financing activities in the first nine months of fiscal year 2009 was primarily due to $423.6 million paid towards our stock repurchase program, offset by cash proceeds of $66.7 million from common stock issued under our employee stock plans. During the first nine months of fiscal year 2008, we used $374.4 million towards our stock repurchase program, while we received cash proceeds of $204.4 million from common stock issued under our employee stock plans.

Liquidity

Cash generated by operations is used as our primary source of liquidity. Our investment portfolio consisted of cash and cash equivalents, asset-backed securities, commercial paper, mortgage-backed securities issued by Government-sponsored enterprises, equity securities, money market funds and debt securities of corporations, municipalities and the United States government and its agencies. As of October 26, 2008, we did not have any investments in auction-rate preferred securities. These investments are denominated in United States dollars.

We account for our investment instruments in accordance with Statement of Financial Accounting Standards No. 115, or SFAS No. 115, Accounting for Certain Investments in Debt and Equity Securities. All of the cash equivalents and marketable securities are treated as "available-for-sale" under SFAS No. 115. 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 income 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.

At October 26, 2008 and January 27, 2008, we had \$1.30 billion and \$1.81 billion, respectively, in cash, cash equivalents and marketable securities. Our investment policy requires the purchase of top-tier investment grade securities, the diversification of asset type and includes certain limits on our portfolio duration, as specified in our investment policy guidelines. These guidelines also limit the amount of credit exposure to any one issue, issuer or type of instrument. As of October 26, 2008, we were in compliance with our investment policy. As of October 26, 2008, our investments in government agencies and government sponsored enterprises represented approximately 68% of our total investment portfolio, while the financial sector, which has been negatively impacted by recent market liquidity conditions, accounted for approximately 19%, of our total investment portfolio. Substantially all of our investments are with A/A2 or better rated securities with the substantial majority of the securities rated AA-/Aa3 or better.

We performed an impairment review of our investment portfolio as of October 26, 2008. Currently, we have the intent and ability to hold our investments with impairment indicators until maturity. Based on our quarterly impairment review and having considered the guidance in Statement of Financial Accounting Standards Staff Position No. 115-1, or FSP No. 115-1, A Guide to the Implementation of Statement 115 on Accounting for Certain Investments in Debt and Equity Securities, we recorded other than temporary impairment charges of \$8.8 million for the three months ended October 26, 2008. These charges include \$5.6 million related to what we believe is an other than temporary impairment of our investment in the money market funds held by the International Reserve Fund. Please refer to Note 17 of the Notes to the Condensed Consolidated Financial Statements for further details. We concluded that our investments were appropriately valued and that except for the \$8.8 million impairment charges recognized in the quarter, no other than temporary impairment charges were necessary on our portfolio of available for sale investments as of October 26, 2008.

Net realized gains for the three and nine months ended October 26, 2008 were \$0.9 million and \$2.1 million, respectively. Net realized gains for the three and nine months ended October 28, 2007 were not significant. As of October 26, 2008, we had a net unrealized loss of \$4.1 million, which was comprised of gross unrealized losses of \$7.0 million, offset by \$2.9 million of gross unrealized gains. As of January 27, 2008, we had a net unrealized gain of \$10.7 million, which was comprised of gross unrealized gains of \$11.1 million, offset by \$0.4 million of gross unrealized losses.

As of October 26, 2008, our money market investment in the International Reserve Fund, which was valued at $124.4 million, net of other than temporary impairment charges, was classified as marketable securities in our Condensed Consolidated Balance Sheet due to the halting of redemption requests in September 2008 by the International Reserve Fund. We expect to receive the proceeds of our investment in the International Reserve Fund by no later than October 2009, when all of the underlying securities held by the International Reserve Fund are scheduled to have matured. However, redemptions from the International Reserve Fund are currently subject to pending litigation, which could cause further delay in receipt of our funds.

Our accounts receivable are highly concentrated and make us vulnerable to adverse changes in our customers' businesses, and to downturns in the industry and the worldwide economy. One customer accounted for approximately 22% of our accounts receivable balance at October 26, 2008. 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

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

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

During the first nine months of fiscal year 2009, we entered into structured share repurchase transactions to repurchase 29.4 million shares for $423.6 million which we recorded on the trade date of the transaction. Through October 26, 2008, we had repurchased 91.1million shares under our stock repurchase program for a total cost of $1.46 billion.

Common Stock

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

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 12 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

In addition, we may continue to use cash in connection with the acquisition of new businesses or assets and capital expenditures related to our property purchases or property development activities. We are also currently evaluating plans to construct a new campus in Santa Clara, California. If we move forward with these plans, we may be required to fund significant construction costs using our cash, cash equivalents and marketable securities. While we expect that we will have sufficient balances of cash, cash equivalents and marketable securities available for this purpose, there is no assurance that we will not need to raise additional debt financing in order to fund this project. Such additional financing may not be available on favorable terms, or at all.

For additional factors that could impact our liquidity, please refer to “Item 1A. Risk Factors - Risks Related to Our Business and Products” - Our operating results are unpredictable and may fluctuate, and if our operating results are below the expectations of securities analysts or investors, the trading price of our stock could decline.”

3dfx Asset Purchase

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 to purchase certain graphics chip assets from 3dfx. Under the terms of the APA, the cash consideration due at the closing was $70.0 million, less $15.0 million that was loaned to 3dfx pursuant to a Credit Agreement dated December 15, 2000. The APA also provided, subject to the other provisions thereof, that if 3dfx properly certified that all its debts and other liabilities had been provided for, then we would have been obligated to pay 3dfx one million shares, which due to subsequent stock splits now totals six million shares, of NVIDIA common stock. If 3dfx could not make such a certification, but instead properly certified that its debts and liabilities could be satisfied for less than $25.0 million, then 3dfx could have elected to receive a cash payment equal to the amount of such debts and liabilities and a reduced number of shares of our common stock, with such reduction calculated by dividing the cash payment by $25.00 per share. If 3dfx could not certify that all of its debts and liabilities had been provided for, or could not be satisfied, for less than $25.0 million, we would not be obligated under the APA to pay any additional consideration for the assets. On April 18, 2001, NVIDIA paid the cash consideration.

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 asserts claims for, among other things, successor liability and fraudulent transfer and seeks additional payments from us. 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.

Please refer to Note 13 of the Notes to Condensed Consolidated Financial Statements for further information regarding this litigation.

Product Defect

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

In July 2008, we recorded a $196.0 million charge against cost of revenue to cover anticipated customer warranty, repair, return, replacement and other associated costs arising from a weak die/packaging material set in certain versions of our previous generation MCP and GPU products used in notebook systems. All of our newly manufactured products and all of our products that are currently shipping in volume have a different material set that we believe is more robust.

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. While we have not been able to determine a root cause for these failures, testing suggests a weak material set of die/package combination, system thermal management designs, and customer use patterns are contributing factors. 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 MCP and GPU products in their notebook system designs. We intend to fully support our customers in their repair and replacement of these impacted MCP and GPU products that fail, and their other efforts to mitigate the consequences of these failures.

We continue to engage in discussions with our supply chain regarding reimbursement to us for some or all of the costs we have incurred and may incur in the future relating to the weak material set. We also continue to seek to access our insurance coverage. However, there can be no assurance that we will recover any such reimbursement. 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 MCP or GPU products.

In September, October and November 2008, several putative class action lawsuits were filed against us, asserting various claims related to the impacted MCP and GPU products. Please refer to Note 13 of the Notes to Condensed Consolidated Financial Statements for further information regarding this litigation.

Contractual Obligations

At October 26, 2008, we had outstanding inventory purchase obligations and capital purchase obligations totaling approximately $446 million and approximately $35 million, respectively. There were no other material changes in our contractual obligations from those disclosed in our Annual Report on Form 10-K for the year ended January 27, 2008. Please see Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources” in our Form 10-K for a description of our contractual obligations.

Off-Balance Sheet Arrangements

As of October 26, 2008, we had no material off-balance sheet arrangements as defined in Regulation S-K 303(a)(4)(ii).

Adoption of New Accounting Pronouncements

On January 28, 2008, we adopted Statement of Financial Accounting Standards No. 157, or SFAS No. 157, Fair Value Measurements for all financial assets and liabilities. SFAS No. 157 applies to all financial assets and financial liabilities recognized or disclosed at fair value in the financial statements. SFAS No. 157 establishes a framework for measuring fair value and expands disclosures about fair value measurements. The changes to current practice resulting from the application of SFAS No. 157 relate to the definition of fair value, the methods used to measure fair value, and the expanded disclosures about fair value measurements. The adoption of SFAS No. 157 for financial assets and liabilities did not have a significant impact on our consolidated financial statements, and the resulting fair values calculated under SFAS No. 157 after adoption were not significantly different than the fair values that would have been calculated under previous guidance. Please refer to Note 17 of these Notes to these Condensed Consolidated Financial Statements for further details on our fair value measurements.

Additionally, in February 2008, the Financial Accounting Standards Board, or FASB, issued FASB Staff Position No. FAS 157-2, or FSP No. 157-2, Effective Date of FASB Statement No. 157, to partially defer FASB Statement No. 157, Fair Value Measurements. FSP No. 157-2 defers the effective date of SFAS No. 157 for non-financial assets and non-financial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually), to fiscal years, and interim periods within those fiscal years, beginning after November 15, 2008. We do not believe the adoption of FSP No. 157-2 will have a material impact on our consolidated financial position, results of operations and cash flows.

In October 2008, the FASB issued Staff Position No. FAS 157-3, or FSP No. 157-3, Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active. FSP No. 157-3 clarifies the application of SFAS No. 157 in a market that is not active, and addresses application issues such as the use of internal assumptions when relevant observable data does not exist, the use of observable market information when the market is not active, and the use of market quotes when assessing the relevance of observable and unobservable data. FSP No. 157-3 is effective for all periods presented in accordance with SFAS No. 157. The adoption of FSP No. 157-3 did not have a significant impact on our consolidated financial statements, and the resulting fair values calculated under SFAS No. 157 after adoption were not significantly different than the fair values that would have been calculated under previous guidance.

On January 28, 2008, we adopted Statement of Financial Accounting Standards No. 159, or SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities. SFAS No. 159 permits companies to choose to measure certain financial instruments and certain other items at fair value using an instrument-by-instrument election. The standard requires that unrealized gains and losses on items for which the fair value option has been elected be reported in earnings. Under SFAS No. 159, we did not elect the fair value option for any of our assets and liabilities. The adoption of SFAS No. 159 did not have an impact on our consolidated financial statements.

In June 2007, the FASB ratified Emerging Issues Task Force Issue No. 07-3, or EITF 07-3, Accounting for Nonrefundable Advance Payments for Goods or Services to Be Used in Future Research and Development Activities. EITF 07-3 requires non-refundable advance payments for goods and services to be used in future research and development activities to be recorded as an asset and the payments to be expensed when the research and development activities are performed. We adopted the provisions of EITF 07-3 beginning with our fiscal quarter ended April 27, 2008. The adoption of EITF 07-3 did not have any impact on our consolidated financial position, results of operations and cash flows.

Recently Issued Accounting Pronouncements

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 141 (revised 2007), or SFAS No. 141(R), Business Combinations. Under SFAS No. 141(R), an entity is required to recognize the assets acquired, liabilities assumed, contractual contingencies, and contingent consideration at their fair value on the acquisition date. It further requires that acquisition-related costs be recognized separately from the acquisition and expensed as incurred, restructuring costs generally be expensed in periods subsequent to the acquisition date, and changes in accounting for deferred tax asset valuation allowances and acquired income tax uncertainties after the measurement period impact income tax expense. In addition, acquired in-process research and development, or IPR&D, is capitalized as an intangible asset and amortized over its estimated useful life. We are required to adopt the provisions of SFAS No. 141(R) beginning with our fiscal quarter ending April 26, 2009. The adoption of SFAS No. 141(R) is expected to change our accounting treatment for business combinations on a prospective basis beginning in the period it is adopted.

In April 2008, the FASB issued FASB Staff Position No. FAS No.142-3, or FSP No. 142-3, Determination of Useful Life of Intangible Assets. FSP No. 142-3 amends the factors that should be considered in developing the renewal or extension assumptions used to determine the useful life of a recognized intangible asset under Statement of Financial Accounting Standards No. 142, or SFAS No. 142, Goodwill and Other Intangible Assets. FSP No. 142-3 also requires expanded disclosure regarding the determination of intangible asset useful lives. FSP No. 142-3 is effective for fiscal years beginning after December 15, 2008. Earlier adoption is not permitted. We are currently evaluating the potential impact the adoption of FSP No. 142-3 will have on our consolidated financial position, results of operations and cash flows.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Investment and Interest Rate Risk

At October 26, 2008 and January 27, 2008, we had $1.30 billion and $1.81 billion, respectively, in cash, cash equivalents and marketable securities. We invest in a variety of financial instruments, consisting principally of cash and cash equivalents, asset-backed securities, commercial paper, mortgage-backed securities issued by Government-sponsored enterprises, equity securities, money market funds and debt securities of corporations, municipalities and the United States government and its agencies. As of October 26, 2008, we did not have any investments in auction-rate preferred securities. Our investments are denominated in United States dollars.

We account for our investment instruments in accordance with Statement of Financial Accounting Standards No. 115, or SFAS No. 115, Accounting for Certain Investments in Debt and Equity Securities. All of the cash equivalents and marketable securities are treated as “available-for-sale” under SFAS No. 115. Investments in both fixed rate and floating rate interest earning instruments carry a degree of interest rate risk. Fixed rate securities may have their market value adversely impacted due to a rise in interest rates, while floating rate securities may produce less income than expected if interest rates fall. Due in part to these factors, our future investment income may fall short of expectations due to changes in interest rates or if the decline in fair value of our publicly traded debt or equity investments is judged to be other-than-temporary. We may suffer losses in principal if we are forced to sell securities that decline in securities market value due to changes in interest rates. However, because any debt securities we hold are classified as “available-for-sale,” no gains or losses are realized in our Condensed Consolidated Statements of Income due to changes in interest rates unless such securities are sold prior to maturity or unless declines in value are determined to be other-than-temporary. These securities are reported at fair value with the related unrealized gains and losses included in accumulated other comprehensive income (loss), a component of stockholders’ equity, net of tax.

As of October 26, 2008, we performed a sensitivity analysis on our floating and fixed rate financial investments. According to our analysis, parallel shifts in the yield curve of both plus or minus 0.5% would result in changes in fair market values for these investments of approximately $3.6 million.

The current financial turmoil affecting the banking system and financial markets and the possibility that financial institutions may consolidate or go out of business have 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. The current volatility in the financial markets and overall 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. For instance, we recorded other than temporary impairment charges of $8.8 million during the three months ended October 26, 2008. These charges include $5.6 million related to what we believe is an other than temporary impairment of our investment in the International Reserve Fund. Please refer to Note 17 of these Notes to the Condensed Consolidated Financial Statements for further details. As of October 26, 2008, our investments in government agencies and government sponsored enterprises represented approximately 68% of our total investment portfolio, while the financial sector accounted for approximately 19%, of our total investment portfolio. Substantially all of our investments are with A/A2 or better rated securities with the substantial majority of the securities rated AA-/Aa3 or better. If the fair value of our investments in these sectors was to decline by 2%-5%, it would result in changes in fair market values for these investments by approximately $15-$38 million.

Exchange Rate Risk

We consider our direct exposure to foreign exchange rate fluctuations to be minimal. Currently, sales 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. During the third quarter of fiscal years 2009 and 2008, the aggregate exchange gain (loss) included in determining net income was $3.3 million and $(0.6) million, respectively. During the first nine months of fiscal years 2009 and 2008, the aggregate exchange loss included in determining net income was $1.8 million and $1.3 million, respectively.

We may enter into certain transactions such as forward contracts which are designed to reduce the future potential impact resulting from changes in foreign currency exchange rates. There were no forward exchange contracts outstanding at October 26, 2008.

ITEM 4. CONTROLS AND PROCEDURES

Controls and Procedures

Disclosure Controls and Procedures

Based on their evaluation as of October 26, 2008, our management, including our Chief Executive Officer and Chief Financial Officer, have concluded that our disclosure controls and procedures as defined in Rule 13a-15(e) and Rule 15d-15(e) under the Securities Exchange Act of 1934, or the Exchange Act, were effective.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal controls over financial reporting during our fiscal quarter ended October 26, 2008 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitations on Effectiveness of Controls

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

PART II

ITEM 1. LEGAL PROCEEDINGS

Please see Part I, Item 1, Note 13 of the Notes to Condensed Consolidated Financial Statements for a discussion of our legal proceedings.

ITEM 1A. RISK FACTORS

A description of the risk factors associated with our business is set forth below. This description includes any material changes to and supersedes the description of risk factors associated with our business previously disclosed in Part II, "Item 1A. Risk Factors" of our Quarterly Report on Form 10-Q for the fiscal quarter ended July 27, 2008.

Risks Related to Competition

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

The markets for our products are highly competitive and are characterized by rapid technological change, new product introductions, evolving industry standards, and declining average selling prices. We believe that our ability to remain competitive will depend on how well we are able to anticipate the features and functions that customers will demand from our products and whether we are able to deliver consistent volumes of our products at acceptable prices and quality levels. We believe other factors impacting our ability to compete are:

- product performance;
- product bundling by competitors with multiple product lines;
- breadth and frequency of product offerings;
- access to customers and distribution channels;
- backward-forward software support;
- conformity to industry standard application programming interfaces; and
- manufacturing capabilities.

We expect competition to increase both from existing competitors and new market entrants with products that may be less costly than ours, may provide better performance or additional features not provided by our products, or from companies that provide or intend to provide competing product solutions. Any of these sources of competition could harm our business. For example, we were the largest supplier of AMD 64 chipsets with 49% segment share in the third quarter of calendar year 2008, as reported in the October 2008 PC Processor and Chipset report from Mercury Research. Decline in demand for our chipsets in the AMD segment for any reason including competition from existing competitors or new market entrants could materially impact our financial results.

Some of our competitors may have or be able to obtain greater marketing, financial, distribution and manufacturing resources than we do and may be better able to adapt to customer or technological changes. Currently, Intel Corporation, or Intel, which has greater resources than we do, is working on a multi-core architecture code-named Larrabee, which is reported to combine the graphics processing capabilities of a graphics processing unit, or GPU, with an x86 architecture and is expected to compete with our products in various markets. Intel is targeting the gaming market as well as other industries that demand high-performance graphics and computing with Larrabee, both of which are important markets for us. In order to compete, we may have to invest substantial amounts in research and development without assurance that our products will be superior to those of our competitors or that our products will achieve market acceptance.

Our current competitors include the following:

- suppliers of discrete media and communication processors, or MCPs, that incorporate a combination of networking, audio, communications and input/output functionality as part of their existing solutions, such as Advanced Micro Devices, Inc., or AMD, Broadcom Corporation, or Broadcom, Silicon Integrated Systems Corporation, or SIS, and Intel;

- suppliers of GPUs, including MCPs, that incorporate 3D graphics functionality as part of their existing solutions, such as AMD, Intel, Matrox Electronics Systems Ltd., SIS and VIA Technologies, Inc.;

- suppliers of GPUs or GPU intellectual property for handheld and digital consumer electronics devices that incorporate advanced graphics functionality as part of their existing solutions, such as AMD, Broadcom, Fujitsu Limited, Imagination Technologies Ltd., ARM Holdings plc, Marvell Technology Group Ltd., or Marvell, NEC Corporation, Qualcomm Incorporated, or Qualcomm, Renesas Technology, Seiko-Epson, Texas Instruments Incorporated, or Texas Instruments, and Toshiba America, Inc.; and

- suppliers of application processors for handheld and digital consumer electronics devices that incorporate multimedia processing as part of their existing solutions such as Broadcom, Texas Instruments, Qualcomm, Marvell, Freescale Semiconductor Inc., Samsung and ST Microelectronics.

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

We expect substantial competition from both Intel's and AMD's strategy of selling platform solutions, such as the success Intel achieved with its Centrino platform solution. AMD has also announced a platform solution. Additionally, we expect that Intel and AMD will extend this strategy to other segments, including the possibility of successfully integrating a central processing unit, or CPU, and a GPU on the same chip, as evidenced by AMD's announcement of its Fusion processor project. If AMD and Intel continue to pursue platform solutions, we may not be able to successfully compete and our business would be negatively impacted.

Risks Related to Our Partners and Customers

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, industry-leading foundries manufacture our semiconductor wafers using their state-of-the-art fabrication equipment and techniques. The foundries, which have limited capacity, also manufacture products for other semiconductor companies, including some of our competitors. Since we do not have long-term commitment contracts with any of these foundries, they do not have an obligation to provide us with any minimum quantity of product at any time or at any set price, 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.

Because the lead-time needed to establish a strategic relationship with a new manufacturing partner could be several quarters, we do not have an alternative source of supply for our products. In addition, the time and effort to qualify a new foundry could result in additional expense, diversion of resources, or 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.

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

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

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

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

Failure to transition to new manufacturing process technologies could adversely affect our operating results and gross margin.

We use the most advanced manufacturing process technology appropriate for our products that is available from our third-party foundries. As a result, we continuously evaluate the benefits of migrating our products to smaller geometry process technologies in order to improve performance and reduce costs. We believe this strategy will help us remain competitive. Our current product families are manufactured using 0.15 micron, 0.14 micron, 0.13 micron, 0.11 micron, 90 nanometer, 65 nanometer and 55 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 techniques in order to have ample capacity for all of their customers and to develop the techniques 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. For example, Intel has released a 45 nanometer chip for desktop computers which it is manufacturing in its foundries. In addition, in October 2008, AMD and the Advanced Technology Investment Company, a technology investment company backed by the government of Abu Dhabi, announced the establishment of a U.S. headquartered semiconductor manufacturing company that will manufacture AMD’s advance processors. 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 rely on third-party vendors to supply software development tools to us for the development of our new products and we may be unable to obtain the tools necessary to develop or enhance new or existing products.

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

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

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

We have a limited number of customers and our sales are highly concentrated. In the third quarter of fiscal years 2009 and 2008, aggregate sales to significant customers, in excess of 10% of our total revenue, accounted for approximately 25% from two customers and 10% from another customer, respectively. For the first nine months of fiscal years 2009 and 2008, aggregate sales to customers in excess of 10% of our total revenue accounted for approximately 11% of total revenue from one customer and approximately 10% of our total revenue from another customer, respectively. Although a small number of our other customers represent the majority of our revenue, their end customers include a large number of original equipment manufacturers, or OEMs, and system integrators throughout the world who, in many cases, specify the graphics supplier. Our sales process involves achieving key design wins with leading personal computer, or PC, OEMs and major system builders and supporting the product design into high volume production with key contract equipment manufacturers, or CEMs, original design manufacturers, or ODMs, add-in board and motherboard manufacturers. These design wins in turn influence the retail and system builder channel that is serviced by CEMs, ODMs, add-in board and motherboard manufacturers. Our distribution strategy is to work with a small number of leading independent CEMs, ODMs, add-in board and motherboard manufacturers, and distributors, each of which has relationships with a broad range of system builders and leading PC OEMs. If we were to lose sales to our PC OEMs, CEMs, ODMs, add-in board manufacturers and motherboard manufacturers and were unable to replace the lost sales with sales to different customers, if they were to significantly reduce the number of products they order from us, or if we were unable to collect accounts receivable from them, our revenue may not reach or exceed the expected level in any period, which could harm our financial condition and our results of operations.

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

Our accounts receivable are highly concentrated and make us vulnerable to adverse changes in our customers' businesses, and to downturns in the industry and the worldwide economy. One customer, Quanta Computer Incorporated, accounted for approximately 22% of our accounts receivable balance at October 26, 2008 and another customer, Asustek Computer Inc., accounted for approximately 12% of our accounts receivable balance at January 27, 2008, respectively.

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.

Risks Related to Our Business and Products

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 management's and engineers' attention from the development of new products and technologies and could increase our operating costs and reduce our gross margin. In addition, an error or defect in new products or releases or related software drivers after commencement of commercial shipments could result in failure to achieve market acceptance or loss of design wins. Also, we may be required to reimburse customers, including for customers' costs to repair or replace the products in the field, which could cause our revenue to decline. A product recall or a significant number of product returns could be expensive, damage our reputation, 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. For example, in July 2008, we recorded a $196.0 million charge against cost of revenue to cover anticipated customer warranty, repair, return, replacement and other associated costs arising from a weak die/packaging material set in certain versions of our previous generation media and communications processor, or MCP, and GPU products used in notebook systems. In September and October 2008, several putative class action lawsuits were filed against us, asserting various claims related to the impacted MCP and GPU products. Please refer to 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 the risk associated with this litigation.

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

Our inventory purchases are based upon future demand forecasts or orders from our customers and may not accurately predict the quantity or type of products that our customers will want or will ultimately purchase. In forecasting demand, we make multiple assumptions any of which may prove to be incorrect. Situations that may result in excess or obsolete inventory, which could result in write-downs of the value of our inventory and/or a reduction in average selling prices, and where our gross margin could be adversely affected include:

- 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.

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

Because we order products or materials in advance of anticipated customer demand, our ability to reduce our inventory purchase commitments quickly in response to lower than expected demand is limited.

We manufacture our products based on forecasts of customer demand in order to have shorter shipment lead times 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. 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 if growth slows or does not materialize, or if we incorrectly forecast product demand, which could negatively impact our financial results.

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

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

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

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

To be successful, we must also enter new markets or develop new uses for our future or existing products. We cannot accurately predict if our current or existing products or technologies will be successful in the new opportunities or markets that we identify for them or that we will compete successfully in any new markets we may enter. For example, we have developed products and other technology in order for certain general-purpose computing operations to be performed on a GPU rather than a CPU. This general purpose computing, which is often referred to as GP computing, was a new use for the GPU which had been entirely used for graphics rendering. During our fiscal year 2008 we introduced our NVIDIA Tesla family of products, which was our entry into the high-performance computing industry, a new market for us. We also offer our CUDA software development solution, which is a C language programming environment for GPUs, that allows parallel computing on the GPU by using standard C language to create programs that process large quantities of data in parallel. Some of our competitors, including Intel, are now developing their own solutions for the discrete graphics and computing markets. Our failure to successfully develop, introduce or achieve market acceptance for new GPUs, other products or other technologies or to enter into new markets or identify new uses for existing or future products, could result in rapidly declining average selling prices, reduced demand for our products or loss of market share any of which could cause our revenue, gross margin and overall financial results to suffer.

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

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

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

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

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

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. We have increased our engineering and technical resources and had 3,710 and 3,020 full-time employees engaged in research and development as of October 26, 2008 and October 28, 2007, respectively. Research and development expenditures were $212.4 million and $179.5 million for the third quarter of fiscal years 2009 and 2008, respectively, and $644.1 million and $495.8 million for the first nine months of fiscal years 2009 and 2008, respectively. Research and development expenses included non-cash stock-based compensation expense of $22.7 million and $18.7 million for the third quarter of fiscal years 2009 and 2008, respectively, and $71.5 million and $57.5 million for the first nine months of fiscal years 2009 and 2008, 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.

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.

During the third quarter of fiscal year 2009, our gross margin declined to 41% as compared to 46.2% during the third quarter of fiscal year 2008 and increased from 16.8% for the second quarter of fiscal year 2009. The decline in gross margin in the second quarter of fiscal year 2009 reflects a $196.0 million charge against cost of revenue to cover anticipated customer warranty, repair, return, replacement and associated costs arising from a weak die/packaging material set in certain versions of our previous generation MCP and GPU products used in notebook systems, as well as the impact of average sales price regression we experienced in our desktop GPU products as a result of increased competition. 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.

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

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

- difficulty in combining the technology, products, operations or workforce of the acquired business with our business;
- difficulty in operating in a new or multiple new locations;
- disruption of our ongoing businesses or the ongoing business of the company we invest in or acquire;
- difficulty in realizing the potential financial or strategic benefits of the transaction;
- difficulty in maintaining uniform standards, controls, procedures and policies;
- disruption of or delays in ongoing research and development efforts;
- diversion of capital and other resources;
- assumption of liabilities;
- diversion of resources and unanticipated expenses resulting from litigation arising from potential or actual business acquisitions or investments;
- difficulties in entering into new markets in which we have limited or no experience and where competitors in such markets have stronger positions; and
- impairment of relationships with employees and customers, or the loss of any of our key employees or customers our target's key employees or customers, as a result of our acquisition or investment.

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

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

Our future success and ability to compete is substantially dependent on our ability to identify, hire, train and retain highly qualified key personnel. The market for key employees in the semiconductor 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 September 2008, we reduced our global workforce by approximately 6.5% as part of our efforts to allow continued investment in strategic growth areas. This reduction in our workforce may impair our ability to recruit and retain qualified employees of our workforce as a result of a perceived risk of future workforce reductions. Employees, whether or not directly affected by the reduction, may also seek future employment with our business partners, customers or competitors. In addition, we rely on stock-based awards as one 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. The significant decline in the trading price of our common stock has resulted in the exercise price of a significant portion of our outstanding options to significantly exceed the current trading price of our common stock, thus lessening the effectiveness of these stock-based awards. We may not continue to successfully attract and retain key personnel which would harm our business.

Our operating expenses are relatively fixed and we may not be able to reduce operating expenses quickly in response to any revenue shortfalls.

Our operating expenses, which are comprised of research and development expenses and sales, general and administrative expenses, represented 34% and 24% of our total revenue for the third quarter of fiscal years 2009 and 2008, respectively, and 31% and 26% for the first nine months of fiscal years 2009 and 2008, respectively. Operating expenses included stock-based compensation expense of $34.8 million and $29.4 million for the third quarter of fiscal years 2009 and 2008, respectively, and $110.8 million and $90.8 million for the first nine months of fiscal years 2009 and 2008, 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 as was the case in the second quarter of fiscal year 2009. Further, some of our operating expenses, like non-cash 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 would be negatively impacted.

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

Since inception, we have used equity through our stock option 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.

In December 2004, the FASB issued Statement of Financial Accounting Standards No. 123(R), or SFAS No. 123(R), Share-based Payment, which requires the measurement and recognition of compensation expense for all stock-based compensation payments. SFAS No. 123(R) requires that we record compensation expense for stock options and our employee stock purchase plan using the fair value of those awards. Stock-based compensation expense resulting from our compliance with SFAS No. 123(R), included $38.4 million and $32.0 million for the third quarter of fiscal years 2009 and 2008, respectively, and $120.9 million and $98.9 million for the first nine months of fiscal years 2009 and 2008, respectively, which negatively impacted our operating results. We believe that SFAS No. 123(R) will continue to negatively impact our operating results.

To the extent that SFAS No. 123(R) makes it more expensive to grant stock options 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 accounting principles generally accepted in the United States, 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 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. For example, during the nine months ended October 26, 2008, our market capitalization declined from approximately $14 billion to approximately $4 billion. 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 operating results are unpredictable and may fluctuate, and if our operating results are below the expectations of securities analysts or investors, the trading price of our stock could decline.

Many of our revenue components fluctuate and are difficult to predict, and our operating expenses are largely independent of revenue. Therefore, it is difficult for us to accurately forecast revenue and profits or losses in any particular period.

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.

Risks related to Market Conditions

Global economic conditions could reduce demand for our products, adversely impact our customers and suppliers and harm our business.

Our operations and performance depend significantly on worldwide economic conditions. Uncertainty about current global economic conditions poses a risk as consumers and businesses may postpone spending in response to tighter credit, negative financial news and/or declines in income or asset values, which could have a material negative effect on the demand for our products and services. Other factors that could influence demand include continuing increases in fuel and other energy costs, conditions in the residential real estate and mortgage markets, labor and healthcare costs, access to credit, consumer confidence, and other macroeconomic factors affecting consumer spending behavior. These and other economic factors could have a material adverse effect on demand for our products and services and on our financial condition and operating results.

The current financial turmoil affecting the banking system and financial markets and the possibility that financial institutions may consolidate or go out of business have 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. For example, during the third quarter of fiscal 2009, we recorded impairment charges of $8.8 million for the third quarter of fiscal year 2009. The current volatility in the financial markets and overall 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.

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

Future declines in the market values of our cash, cash equivalents and marketable securities could have a material adverse effect on our financial condition and operating results. At October 26, 2008 and January 27, 2008, we had $1.30 billion and $1.81 billion, respectively, in cash, cash equivalents and marketable securities. Given the global nature of our business, we have invested both domestically and internationally. All of our investments are denominated in United States dollars. We invest in a variety of financial instruments, consisting principally of cash and cash equivalents, asset-backed securities, commercial paper, mortgage-backed securities issued by Government-sponsored enterprises, equity securities, money market funds and debt securities of corporations, municipalities and the United States government and its agencies. As of October 26, 2008, we did not have any investments in auction-rate preferred securities. As of October 26, 2008, our investments in the financial sector, which has been negatively impacted by recent market liquidity conditions, and government agencies including government-sponsored enterprises accounted for approximately 19% and 68%, respectively, of our total investment portfolio. Credit ratings and pricing of these investments can be negatively impacted by liquidity, credit deterioration or losses, financial results, or other factors. As a result, the value or liquidity of our cash, cash equivalents and marketable securities could decline and result in a material impairment, which could have a material adverse effect on our financial condition and operating results. For example, during the third quarter of fiscal 2009, we recorded impairment charges of $8.8 million for the third quarter of fiscal year 2009. These charges include $5.6 million towards the other than temporary impairment of our investment in the money market funds held by the Reserve International Liquidity Fund, Ltd., or International Reserve Fund. Please refer to Note 17 of the Notes to Condensed Consolidated Financial Statements for further detail. As of October 26, 2008, our money market investment in the International Reserve Fund, which was valued at $124.4 million, net of other than temporary impairment charges, was classified as marketable securities in our Condensed Consolidated Balance Sheet due to the halting of redemption requests in September 2008 by the International Reserve Fund. We expect to receive the proceeds of our investment in the International Reserve Fund by no later than October 2009, when all of the underlying securities held by the International Reserve Fund are scheduled to have matured. However, redemptions from the International Reserve Fund are currently subject to pending litigation, which could cause further delay in receipt of our funds. In addition, we may determine that further impairment of our investment in the International Reserve Fund may be necessary.

We account for our investment instruments in accordance with Statement of Financial Accounting Standards No. 115, or SFAS No. 115, Accounting for Certain Investments in Debt and Equity Securities. All of our cash equivalents and marketable securities are treated as "available-for-sale" under SFAS No. 115. 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 Condensed Consolidated Statements of Income 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, a component of stockholders' equity, net of tax.

Our stock price continues to be volatile.

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 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 fiscal quarter, the trading price of our common stock declined. In September 2008, several putative class action lawsuits were filed against us relating to this announcement. Please refer to Note 13 of the Notes to Condensed Consolidated Financial Statements for further information regarding these lawsuits. Due to changes in the potential volatility of our stock price, we may be the target of securities litigation in the future. Such lawsuits could result in the diversion of management's time and attention away from business operations, which could harm our business. In addition, the costs of defense and any damages resulting from litigation, a ruling against us, or a settlement of the litigation could adversely affect our cash flow and financial results.

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. We generated 83% and 90% of our revenue for the third quarter of fiscal years 2009 and 2008, respectively, and 88% of our revenue for the first nine months of each fiscal year 2009 and 2008, from sales to customers outside the United States and other Americas. As of October 26, 2008, we had offices in thirteen countries outside of the United States. The manufacture, assembly, test and packaging of our products outside of the United States, operation of offices outside of the United States, and sales to customers internationally subjects us to a number of risks, including:

- international economic and political conditions, such as political tensions between countries in which we do business;
- unexpected changes in, or impositions of, legislative or regulatory requirements;
- complying with a variety of foreign laws;
- differing legal standards with respect to protection of intellectual property and employment practices;
- cultural differences in the conduct of business;
- inadequate local infrastructure that could result in business disruptions;
- exporting or importing issues related to export or import restrictions, tariffs, quotas and other trade barriers and restrictions;
- financial risks such as longer payment cycles, difficulty in collecting accounts receivable and fluctuations in currency exchange rates;
- imposition of additional taxes and penalties; and
- other factors beyond our control such as terrorism, civil unrest, war and diseases such as severe acute respiratory syndrome and the Avian flu.

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

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

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

If our products do not continue to be adopted by the desktop PC, notebook PC, workstation, high-performance computing, personal media players, or PMPs, personal digital assistants, or PDAs, cellular handheld devices, and video game console markets or if the demand for new and innovative products in these markets decreases, our business and operating results would suffer.

Our success depends in part upon continued broad adoption of our processors for 3D graphics and multimedia in desktop PC, notebook PC, workstation, high-performance computing, PMPs, PDAs, cellular handheld devices, and video game console applications. The market for processors has been characterized by unpredictable and sometimes rapid shifts in the popularity of products, often caused by the publication of competitive industry benchmark results, changes in pricing of dynamic random-access memory devices and other changes in the total system cost of add-in boards, as well as by severe price competition and by frequent new technology and product introductions. Broad market acceptance is difficult to achieve and such market acceptance, if achieved, is difficult to sustain due to intense competition and frequent new technology and product introductions. Our GPU and MCP businesses together comprised approximately 73% and 80% of our revenue for the third quarter of fiscal years 2009 and 2008, respectively, and 76% and 78% of our revenue during the first nine of fiscal years 2009 and 2008, respectively. As such, our financial results would suffer if for any reason our current or future GPUs or MCPs do not continue to achieve widespread adoption by the PC market. If we are unable to complete the timely development of new products or if we were unable to successfully and cost-effectively manufacture and deliver products that meet the requirements of the desktop PC, notebook PC, workstation, high-performance computing, PMP, PDA, cellular phone, and video game console markets, we may experience a decrease in revenue which could negatively impact our operating results.

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

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

We derive and expect to continue to derive the majority of our revenue from the sale or license of products for use in the desktop PC and notebook PC markets, including professional workstations. A reduction in sales of PCs, or a reduction in the growth rate of PC sales, may reduce demand for our products. These changes in demand could be large and sudden. During the third quarter of fiscal year 2009, sales of our desktop GPU products decreased by approximately 42% compared to the third quarter of fiscal year 2008. These decreases were primarily due to the Standalone Desktop GPU market segment decline as reported in the latest PC Graphics October 2008 Report from Mercury Research. Since PC manufacturers often build inventories during periods of anticipated growth, they may be left with excess inventories if growth slows or if they incorrectly forecast product transitions. In these cases, PC manufacturers may abruptly suspend substantially all purchases of additional inventory from suppliers like us until their excess inventory has been absorbed, which would have a negative impact on our financial results.

Our business is cyclical in nature and an industry downturn could harm our financial results.

Our business is directly affected by market conditions in the highly cyclical semiconductor industry, including alternating periods of overcapacity and capacity constraints, variations in manufacturing costs and yields, significant expenditures for capital equipment and product development, and rapid technological change. If we are unable to respond to changes in our industry, which can be unpredictable and rapid, in an efficient and timely manner, our operating results could suffer. In particular, from time to time, the semiconductor industry has experienced significant and sometimes prolonged downturns characterized by diminished product demand, increased inventory levels and accelerated erosion of average selling prices. If we cannot take appropriate actions such as reducing our manufacturing or operating expenses to sufficiently offset declines in demand, increased inventories, or decreased selling prices during a downturn, our revenue and operating results will suffer.

Risks Related to Regulatory, Legal and Other Matters

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

During our fiscal quarter ended July 27, 2008, we recorded a $196.0 million charge against cost of revenue to cover anticipated customer warranty, repair, return, replacement and other associated costs arising from a weak die/packaging material set in certain versions of our previous generation MCP and GPU products used in notebook systems. 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. While we have not been able to determine a root cause for these failures, testing suggests a weak material set of die/package combination, system thermal management designs, and customer use patterns are contributing factors. We continue to engage in discussions with our supply chain regarding reimbursement to us for some or all of the costs we have incurred and may incur in the future relating to the weak material set. We also continue to seek to access our insurance coverage. However, there can be no assurance that we will recover any such reimbursement. 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 MCP or GPU products.

In September, October and November 2008, several putative 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.

The ongoing civil actions or any new actions relating to the market for GPUs could adversely affect our business.

On November 29, 2006, we received a subpoena from the San Francisco Office of the Antitrust Division of the United States Department of Justice, or DOJ, in connection with the DOJ's investigation into potential antitrust violations related to GPUs and cards. On October 10, 2008, the DOJ formally notified us that the DOJ investigation had been closed. No specific allegations were made against NVIDIA during the investigation.

Several putative civil complaints were filed against us by direct and indirect purchasers of GPUs, asserting federal antitrust claims based on alleged price fixing, market allocation, and other alleged anti-competitive agreements between us and ATI Technologies, ULC., or ATI, and Advanced Micro Devices, Inc., or AMD, as a result of its acquisition of ATI. The indirect purchasers' consolidated amended complaint also asserts a variety of state law antitrust, unfair competition and consumer protection claims on the same allegations, as well as a common law claim for unjust enrichment.

In September 2008, we executed a settlement agreement, or the Agreement, in connection with the claims of the certified class of direct purchaser plaintiffs. The Agreement is subject to court approval and, if approved, would dispose of all claims and appeals raised by the certified class in the complaints against NVIDIA. In addition, in September 2008, we reached a settlement agreement with the remaining individual indirect purchaser plaintiffs that provides for a dismissal of all claims and appeals related to the complaints raised by the individual indirect purchaser plaintiffs. This settlement is not subject to the approval of the court. While we expect the courts to approve the settlement agreement with the direct purchasers, there can be no assurance that it will approved. If the settlement agreement is not approved we may be required to pay damages or penalties or have other remedies imposed on us that could harm our business. In addition, additional parties may bring claims against us relating to the potential antitrust violations related to GPUs and cards. If additional claims are brought against us, 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.

The matters relating to the Board of Director's, or Board's, review of our historical stock option granting practices and the restatement of our consolidated financial statements have resulted in litigation, which could harm our financial results.

On August 10, 2006, we announced that the Audit Committee of our Board, with the assistance of outside legal counsel, was conducting a review of our stock option practices covering the time from our initial public offering in 1999, our fiscal year 2000, through June 2006. The Audit Committee reached the conclusion that incorrect measurement dates were used for financial accounting purposes for stock option grants in certain prior periods. As a result, we recorded additional non-cash stock-based compensation expense, and related tax effects, related to stock option grants. Ten derivative complaints were filed in state and federal court pertaining to allegations relating to stock option grants. In September 2008, we entered into Memoranda of Understanding regarding the settlement of the stockholder derivative lawsuits. In November 2008, the definitive settlement agreements were concurrently filed in the Chancery Court of Delaware and the United States District Court Northern District of California and are subject to approval by both such courts. The settlement agreements do not contain any admission of wrongdoing or fault on the part of NVIDIA, our board of directors or executive officers. While we expect the courts to approve the settlement agreements, there can be no assurance that they will approved. If the settlement agreements are not approved we may be required to pay damages or penalties or have other remedies imposed on us that could harm our business.

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

We have been subject to government investigations and inquiries from regulatory agencies. For example, on November 29, 2006, we received a subpoena from the San Francisco Office of the Antitrust Division of the United States Department of Justice, or DOJ, in connection with the DOJ's investigation into potential antitrust violations related to GPUs and cards. On October 10, 2008, the DOJ formally notified us that the DOJ investigation had been closed. No specific allegations were made against NVIDIA during the investigation. In addition, in late August 2006, the Securities and Exchange Commission, or SEC initiated an inquiry related to our historical stock option grant practices. On October 26, 2007, the SEC formally notified us that the SEC's investigation concerning our historical stock option granting practices had been terminated and that no enforcement action was recommended. 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 the past, litigation has often been brought against a company in connection with the announcement of a government investigation or inquiry from a regulatory agency. For example, following the announcement of the DOJ investigation, several putative civil complaints were filed against us. In addition, following our Audit Committee's investigation and the SEC's investigation concerning our historical stock option granting practices, ten derivative complaints were filed in state and federal court pertaining to allegations relating to stock option grants. Please refer to Note 13 of the Notes to Condensed Consolidated Financial Statements for further information regarding these lawsuits. 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 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.

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 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 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, 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.

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

We are a party to litigation as both a defendant and as a plaintiff. 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 asserted against us may cause us to pay substantial damages, including punitive damages, and other related fees. 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.

We are subject to the risks of owning real property.

In the first nine months of fiscal year 2009, we used approximately $150.0 million of our cash to purchase 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 fixing any environmental problems;
- adverse changes in the value of these properties, due to interest rate changes, changes in the neighborhood in which the property is located, or other factors;
- 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.

We may need to raise additional capital to fund the construction of a new campus, which may not be available on favorable terms, or at all.

Currently, we are considering construction of a new campus in Santa Clara, California. If we move forward with our plans, we will spend a significant amount for materials and related construction costs. If we are unable to control our construction related expenses or costs or such costs are higher than we anticipate, we may not have sufficient balances of cash, cash equivalents and marketable securities to fund our operations. As a result, we may need to raise additional financing. Such additional financing may not be available on favorable terms, or at all. Use of our available funds may also prevent us from making other necessary investments in our business such as in research and development of new products.

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

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

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

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

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. For example, we are subject to the European Union Directive on Restriction of Hazardous Substances Directive, or RoHS Directive, that restricts the use of a number of substances, including lead, and other hazardous substances in electrical and electronic equipment in the market in the European Union. We could face significant costs and liabilities in connection with the European Union Directive on Waste Electrical and Electronic Equipment, or WEEE. The WEEE directs members of the European Union to enact laws, regulations, and administrative provisions to ensure that producers of electric and electronic equipment are financially responsible for the collection, recycling, treatment and environmentally responsible disposal of certain products sold into the market after August 15, 2005.

It is possible that unanticipated supply shortages, delays or excess non-compliant inventory may occur as a result of the RoHS Directive, WEEE, and other domestic or international environmental regulations. Failure to comply with any applicable environmental regulations could result in a range of consequences including costs, fines, suspension of production, excess inventory, sales limitations, criminal and civil liabilities and could impact our ability to conduct business in the countries or states that have adopted these types of regulations.

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

Section 404 of the Sarbanes-Oxley Act of 2002 requires our management to report on, and our independent registered public accounting firm to audit, the effectiveness of our internal control structure and procedures for financial reporting. We have an ongoing program to perform the system and process evaluation and testing necessary to comply with these requirements. However, the manner in which companies and their independent public accounting firms apply these requirements and test companies' internal controls remains subject to some judgment. To date, we have incurred, and we expect to continue to incur, increased expense and to devote additional management resources to Section 404 compliance. Despite our efforts, if we identify a material weakness in our internal controls, there can be no assurance that we will be able to remediate that material weakness in a timely manner, or that we will be able to maintain all of the controls necessary to determine that our internal control over financial reporting is effective. In the event that our chief executive officer, chief financial officer or our independent registered public accounting firm determine that our internal control over financial reporting is not effective as defined under Section 404, investor perceptions of us may be adversely affected and could cause a decline in the market price of our stock.

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

We prepare our consolidated financial statements in conformity with generally accepted accounting principles in the United States. 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.

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

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

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

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

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

Issuer Purchases of Equity Securities

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

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 the Securities Exchange Act of 1934, or the Exchange Act, Rule 10b-18, subject to market conditions, applicable legal requirements, and other factors. The program does not obligate us 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.

Through October 26, 2008, we had repurchased 91.1 million shares under our stock repurchase program for a total cost of $1.46 billion. During the three months ended October 26, 2008, we entered into a structured share repurchase transaction to repurchase 23.1 million shares for $299.7 million which we recorded on the trade date of the transaction.

Period:	Total Number of Shares Purchased	Average Price Paid per Share (2)	Total Number of Shares Purchased as Part of Publicly Announced Plans of Programs (3)	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (1)
July 28, 2008 through August 24, 2008	-	-	-	$ 1,535,460,657
August 25, 2008 through September 28, 2008	-	-	-	$ 1,535,460,657
September 29, 2008 through October 26, 2008	23,076,923	$ 12.99	23,076,923	$ 1,235,721,129
Total	23,076,923	$ 12.99	23,076,923	

(1) On August 9, 2004, we announced that our Board had authorized a stock repurchase program to repurchase shares of our common stock, subject to certain specifications, up to an aggregate maximum amount of $300.0 million. On March 6, 2006, we announced that the Board had approved a $400.0 million increase to the original stock repurchase program. Subsequently, on May 21, 2007, we announced a stock repurchase program under which we may purchase up to an additional $1.0 billion of our common stock over a three year period through May 2010. Further, on August 12, 2008, we announced that our Board further authorized an additional increase of $1.0 billion to the stock

repurchase program. As a result of these increases, we have an ongoing authorization from the Board, subject to certain specifications, to repurchase shares of our common stock up to an aggregate maximum amount of $2.7 billion on the open market, in negotiated transactions or through structured stock repurchase agreements that may be made in one or more larger repurchases.

(2) Represents weighted average price paid per share during the quarter ended October 26, 2008.

(3) 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. During the three months ended October 26, 2008, we entered into a structured share repurchase transaction to repurchase 23.1 million shares for $299.7 million, which we recorded on the trade date of the transaction.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

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

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

EXHIBIT INDEX

Exhibit No.	Exhibit Description	Incorporated by Reference Schedule/Form	File Number	Exhibit	Filing Date
31.1*	Certification of Chief Executive Officer as required by Rule 13a-14(a) of the Securities Exchange Act of 1934				
31.2*	Certification of Chief Financial Officer as required by Rule 13a-14(a) of the Securities Exchange Act of 1934				
32.1#	Certification of Chief Executive Officer as required by Rule 13a-14(b) of the Securities Exchange Act of 1934				
32.2#	Certification of Chief Financial Officer as required by Rule 13a-14(b) of the Securities Exchange Act of 1934				

* Filed Herewith

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

SIGNATURE

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

Date: December 1, 2008	
	NVIDIA Corporation
By:	/s/ MARVIN D. BURKETT
	Marvin D. Burkett
	(Duly Authorized Officer and Principal Financial and Accounting Officer)

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