

NVIDIA CORP
Form 10-Q
August 20, 2009

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

FORM 10-Q

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

For the quarterly period ended July 26, 2009

OR

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

Commission file number: 0-23985

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

Delaware
(State or Other Jurisdiction of
Incorporation or Organization)

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

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

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

N/A

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

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

Yes No

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

Yes No

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

Large accelerated filer <input checked="" type="checkbox"/>	Accelerated filer <input type="checkbox"/>
Non-accelerated filer <input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company <input type="checkbox"/>

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

The number of shares of common stock, \$0.001 par value, outstanding as of August 17, 2009 was 547.8 million.

NVIDIA CORPORATION
FORM 10-Q
FOR THE QUARTER ENDED JULY 26, 2009

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)

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

(In thousands, except per share data)

	Three Months Ended		Six Months Ended	
	July 26, 2009	July 27, 2008	July 26, 2009	July 27, 2008
Revenue	\$776,520	\$892,676	\$ 1,440,751	\$ 2,046,064
Cost of revenue	619,797	742,759	1,094,332	1,381,304
Gross profit	156,723	149,917	346,419	664,760
Operating expenses				
Research and development	192,855	212,910	494,652	431,740
Sales, general and administrative	73,975	92,399	192,839	185,433
Total operating expenses	266,830	305,309	687,491	617,173
Income (loss) from operations	(110,107)	(155,392)	(341,072)	47,587
Interest income	5,779	12,081	11,903	26,404
Other income (expense), net	(2,773)	(3,289)	(2,753)	(7,573)
Income (loss) before income tax expense (benefit)	(107,101)	(146,600)	(331,922)	66,418
Income tax expense (benefit)	(1,799)	(25,671)	(25,282)	10,542
Net income (loss)	\$(105,302)	\$(120,929)	\$ (306,640)	\$ 55,876
Basic net income (loss) per share	\$ (0.19)	\$ (0.22)	\$ (0.56)	\$ 0.10
Shares used in basic per share computation	546,639	555,417	544,463	555,531
Diluted net income (loss) per share	\$ (0.19)	\$ (0.22)	\$ (0.56)	\$ 0.09
Shares used in diluted per share computation	546,639	555,417	544,463	592,181

See accompanying Notes to Condensed Consolidated Financial Statements

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

	July 26, 2009	January 25, 2009
Current assets:		
Cash and cash equivalents	\$ 523,785	\$ 417,688
Marketable securities	942,320	837,702
Accounts receivable, net	351,960	318,435
Inventories	279,216	537,834
Prepaid expenses and other	50,548	39,794
Deferred income taxes	20,076	16,505
Total current assets	2,167,905	2,167,958
Property and equipment, net	582,914	625,798
Goodwill	369,844	369,844
Intangible assets, net	135,678	147,101
Deposits and other assets	42,068	40,026
Total assets	\$ 3,298,409	\$ 3,350,727
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 275,978	\$ 218,864
Accrued liabilities and other	615,343	559,727
Total current liabilities	891,321	778,591
Other long-term liabilities	134,619	151,850
Capital lease obligations, long term	25,060	25,634
Commitments and contingencies - see Note 12		
Stockholders' equity:		
Preferred stock	-	-
Common stock	638	629
Additional paid-in capital	2,043,840	1,889,257
Treasury stock, at cost	(1,463,268)	(1,463,268)
Accumulated other comprehensive income	8,670	3,865
Retained earnings	1,657,529	1,964,169
Total stockholders' equity	2,247,409	2,394,652
Total liabilities and stockholders' equity	\$ 3,298,409	\$ 3,350,727

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	Six Months Ended	
	July 26, 2009	July 27, 2008
Cash flows from operating activities:		
Net income (loss)	\$ (306,640)	\$ 55,876
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Stock-based compensation expense related to stock option purchase	135,735	-
Depreciation and amortization	99,980	87,664
Stock based compensation expense	59,489	81,423
Other	2,453	3,145
Deferred income taxes	(28,031)	5,547
Payments under patent licensing arrangement	(616)	(26,680)
Changes in operating assets and liabilities, net of effects of acquisitions:		
Accounts receivable	(33,758)	(12,373)
Inventories	256,564	(73,139)
Prepaid expenses and other current assets	(14,325)	9,136
Deposits and other assets	(2,824)	(491)
Accounts payable	56,486	(87,730)
Accrued liabilities and other long-term liabilities	52,732	183,824
Net cash provided by operating activities	277,245	226,202
Cash flows from investing activities:		
Purchases of marketable securities	(530,110)	(678,704)
Proceeds from sales and maturities of marketable securities	427,699	810,508
Purchases of property and equipment and intangible assets	(38,433)	(255,687)
Acquisition of businesses, net of cash and cash equivalents	-	(27,948)
Other	782	1,718
Net cash used in investing activities	(140,062)	(150,113)
Cash flows from financing activities:		
Payments related to stock option purchase	(78,075)	-
Proceeds from issuance of common stock under employee stock plans	47,092	39,981
Payments related to repurchases of common stock	-	(123,896)
Payments under capital lease obligations	(103)	-
Net cash used in financing activities	(31,086)	(83,915)
Change in cash and cash equivalents	106,097	(7,826)
Cash and cash equivalents at beginning of period	417,688	726,969
Cash and cash equivalents at end of period	\$ 523,785	\$ 719,143
Supplemental disclosures of cash flow information:		
Cash paid for income taxes, net	\$ 1,693	\$ 4,459

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Cash paid for interest on capital lease obligations	\$ 1,643	\$ -
Other non-cash activities:		
Assets acquired by assuming related liabilities	\$ 6,288	\$ 68,408
Unrealized gains (losses) from marketable securities	\$ 4,805	\$ (11,252)

See accompanying Notes to Condensed Consolidated Financial Statements.

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

Note 1 - Summary of Significant Accounting Policies

Basis of presentation

The accompanying unaudited condensed consolidated financial statements were prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Article 10 of Securities and Exchange Commission, or SEC, Regulation S-X. In the opinion of management, all adjustments, consisting only of normal recurring adjustments except as otherwise noted, considered necessary for a fair statement of results of operations and financial position have been included. The results for the interim periods presented are not necessarily indicative of the results expected for any future period. The following information should be read in conjunction with the audited financial statements and notes thereto included in our Annual Report on Form 10-K for the fiscal year ended January 25, 2009.

Fiscal year

We operate on a 52 or 53-week year, ending on the last Sunday in January. Fiscal year 2010 is a 53-week year, compared to fiscal year 2009 which was a 52-week year. The second quarter of fiscal years 2010 and 2009 are both 13-week quarters.

Reclassifications

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

Principles of Consolidation

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

Use of Estimates

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

Subsequent Events

We have evaluated subsequent events through the time of filing this quarterly report on Form 10-Q on August 20, 2009.

Revenue Recognition

Product Revenue

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

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

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

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

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

License and Development Revenue

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

Marketable Securities

Cash equivalents consist of financial instruments which are readily convertible into cash and have original maturities of three months or less at the time of acquisition. Marketable securities consist primarily of highly liquid investments with maturities of greater than three months when purchased. We generally classify our marketable securities at the date of acquisition as available-for-sale. 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. Any unrealized losses which are considered to be other-than-temporary impairments are recorded in the other income (expense) section of our consolidated statements of operations. Realized gains (losses) on the sale of

marketable securities are determined using the specific-identification method and recorded in the other income (expense) section of our consolidated statements of operations.

All of our available-for-sale investments are subject to a periodic impairment review. We record a change to earnings when a decline in fair value is significantly below cost basis and judged to be other-than-temporary, or have other indicators of impairments. If the fair value of an available-for-sale debt instrument is less than its amortized cost basis, an other-than-temporary impairment is triggered in circumstances where (1) we intend to sell the instrument, (2) it is more likely than not that we will be required to sell the instrument before recovery of its amortized cost basis, or (3) we do not expect to recover the entire amortized cost basis of the instrument (that is, a credit loss exists). If we intend to sell or it is more likely than not that we will be required to sell the available-for-sale debt instrument before recovery of its amortized cost basis, we recognize an other-than-temporary impairment in earnings equal to the entire difference between the debt instruments' amortized cost basis and its fair value. For available-for-sale debt instruments that are considered other-than-temporarily impaired due to the existence of a credit loss, if we do not intend to sell and it is not more likely than not that we will be required to sell the instrument before recovery of its remaining amortized cost basis (amortized cost basis less any current-period credit loss), we separate the amount of the impairment into the amount that is credit related and the amount due to all other factors. The credit loss component is recognized in earnings.

Inventories

Inventory cost is computed on an adjusted standard basis, which approximates actual cost on an average or first-in, first-out basis. Inventory costs consist primarily of the cost of semiconductors purchased from subcontractors, including wafer fabrication, assembly, testing and packaging, manufacturing support, including labor and overhead associated with such purchases, final test yield fallout, inventory provisions and shipping costs. We write down our inventory for estimated amounts related to lower of cost or market, obsolescence or unmarketable inventory equal to the difference between the cost of inventory and the estimated market value based upon assumptions about future demand, future product purchase commitments, estimated manufacturing yield levels and market conditions. Inventory reserves once established are not reversed until the related inventory has been sold or scrapped.

Product Warranties

We generally offer limited warranty to end-users that ranges from one to three years for products in order to repair or replace products for any manufacturing defects or hardware component failures. Cost of revenue includes the estimated cost of product warranties that are calculated at the point of revenue recognition. Under limited circumstances, we may offer an extended limited warranty to customers for certain products. We also accrue for known warranty and indemnification issues if a loss is probable and can be reasonably estimated.

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

Adoption of New Accounting Pronouncements

Business Combinations. In December 2007, the Financial Accounting Standards Board, or 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 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; that restructuring costs generally be expensed in periods subsequent to the acquisition date; and that changes in accounting for deferred tax asset valuation allowances and acquired income tax uncertainties after the measurement period be recognized as a component of the provision for taxes. In addition, acquired in-process research and development is measured at fair value, capitalized as an indefinite-life intangible asset and tested for impairment pursuant to Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets, or SFAS No. 142. We adopted SFAS No. 141(R) in the first quarter of fiscal year 2010 and will apply this new accounting standard to any future business combinations.

In April 2009, the FASB issued FASB Staff Position No. 141R-1 Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies, or FSP 141R-1. FSP 141R-1 amends the provisions in SFAS No. 141(R) for the initial recognition and measurement, subsequent measurement and accounting, and disclosures for assets and liabilities arising from contingencies in business combinations. FSP 141R-1 eliminates the distinction between contractual and non-contractual contingencies, including the initial recognition and measurement criteria in SFAS No. 141(R) and instead carries forward most of the provisions in SFAS No. 141 for acquired contingencies. FSP 141R-1 is effective for contingent assets and contingent liabilities acquired in business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. We adopted FSP 141R-1 in the first quarter of fiscal year 2010 and will apply this new accounting standard to any future business combinations.

Life of Intangible Assets. In April 2008, the FASB issued FSP No. 142-3, Determination of the Useful Life of Intangible Assets, or FSP 142-3, which amends the factors considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142. FSP 142-3 requires a consistent approach between the useful life of a recognized intangible asset under SFAS No. 142 and the period of expected cash flows used to measure the fair value of an asset under SFAS No. 141(R). The FSP also requires enhanced disclosures when an intangible asset's expected future cash flows are affected by an entity's intent and/or ability to renew or extend the arrangement. FSP 142-3 is effective for financial statements issued for fiscal years beginning after December 15, 2008 and is applied prospectively. We adopted FSP 142-3 in the first quarter of fiscal year 2010. The adoption of FSP 142-3 did not have a material impact on our consolidated financial position, results of operations or cash flows.

Fair Value of Financial Instruments. In April 2009, the FASB issued FSP No. FAS 107-1 and APB 28-1, Interim Disclosures about Fair Value of Financial Instruments, or FSP 107-1 and APB 28-1, which require disclosure in the body or in the accompanying notes of the Company's summarized financial information for interim reporting periods and in its financial statements for annual reporting periods of the fair value of all financial instruments for which it is practicable to estimate that value, whether recognized or not in the statement of financial position, as required by Statement of Financial Accounting Standards No. 107, Disclosures about Fair Value of Financial Instruments. We were required to adopt FSP FAS 107-1 and APB 28-1 in the second quarter of fiscal year 2010. The adoption of FSP

FAS 107-1 and APB 28-1 did not have a material impact on our consolidated financial position, results of operations or cash flows.

Other-Than-Temporary Impairment. In April 2009, the FASB issued FSP No. FAS 115-2 and FAS 124-2, Recognition and Presentation of Other-Than-Temporary Impairments, or FSP No. 115-2 and FAS No. 124-2, which clarify the interaction of the factors that should be considered when determining whether a debt security is other than temporarily impaired. We were required to adopt FSP No. 115-2 and FAS No. 124-2 in the second quarter of fiscal year 2010. The adoption of FSP No. 115-2 and FAS No. 124-2 did not have a material impact on our consolidated financial position, results of operations or cash flows.

Fair Value Considering Volume and Level of Activity. In April 2009, the FASB issued FSP No. FAS 157-4, Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly, or FSP 157-4, which clarifies the interaction of the factors that should be considered when evaluating whether there has been a significant decrease in the volume and level of activity for an asset or liability when compared with normal market activity for the asset or liability (or similar assets or liabilities). If there has been a significant decrease in the volume and level of activity for the asset or liability, further analysis of the transactions or quoted prices is required, and a significant adjustment to the transactions or quoted prices may be necessary to estimate fair value. We were required to adopt FSP No. 157-4 in the second quarter of fiscal year 2010. The adoption of FSP No. 157-4 did not have a material impact on our consolidated financial position, results of operations or cash flows.

Subsequent Events. In May 2009, the FASB issued Statement of Financial Accounting Standards No. 165, Subsequent Events, or SFAS No. 165, which provides authoritative accounting literature for a topic that was previously addressed only in the auditing literature. The guidance in SFAS No. 165 largely is similar to the current guidance in the auditing literature with some exceptions that are not intended to result in significant changes in practice. We adopted SFAS No. 165 in the second quarter of fiscal year 2010. Please refer to Note 1 of these Notes to the Condensed Consolidated Financial Statements for the related disclosure. The adoption of SFAS No. 165 did not have a material impact on our consolidated financial statements.

Recently Issued Accounting Pronouncements

Variable Interest Entities. In June 2009, the FASB issued Statement of Financial Accounting Standards No. 167, Amendments to FASB Interpretation No. 46(R), or SFAS No. 167. SFAS No. 167 amends the evaluation criteria to identify the primary beneficiary of a variable interest entity provided by FIN 46(R). Additionally, SFAS No. 167 requires ongoing reassessments of whether an enterprise is the primary beneficiary of the variable interest entity. SFAS No. 167 will be effective for interim and annual reporting periods beginning after November 15, 2009. We do not believe the adoption of SFAS No. 167 will have a material impact on our consolidated financial position, results of operations or cash flows.

In June 2009, the FASB issued Statement of Financial Accounting Standards No. 168, The FASB Accounting Standard Codification and the Hierarchy of the Generally Accepted Accounting Principles — a replacement of SFAS No. 162 (SFAS 168), or SFAS No. 168, to become the source of authoritative U.S. generally accepted accounting principles, or GAAP, recognized by the FASB to be applied by nongovernmental entities. SFAS No. 168 is effective for financial statements issued for interim and annual periods ending after September 15, 2009. We do not believe the adoption of SFAS 168 will have a material impact on our consolidated financial statements.

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

Note 2 – Net Income (Loss) Per Share

Basic net income per share is computed using the weighted average number of common shares outstanding during the period. Diluted net income per share is computed using the weighted average number of common and dilutive common equivalent shares outstanding during the period, using the treasury stock method. Under the treasury stock method, the effect of stock options outstanding is not included in the computation of diluted net income per share for periods when their effect is anti-dilutive. The following is a reconciliation of the numerators and denominators of the basic and diluted net income (loss) per share computations for the periods presented:

	Three Months Ended		Six Months Ended	
	July 26, 2009	July 27, 2008	July 26, 2009	July 27, 2008
	(In thousands, except per share data)			
Numerator:				
Net income (loss)	\$ (105,302)	\$ (120,929)	\$ (306,640)	\$ 55,876
Denominator:				
Denominator for basic net income per share, weighted average shares	546,639	555,417	544,463	555,531
Effect of dilutive securities :				
Stock options outstanding	-	-	-	36,650
Denominator for diluted net income (loss) per share, weighted average shares	546,639	555,417	544,463	592,181
Net income per share:				
Basic net income (loss) per share	\$ (0.19)	\$ (0.22)	\$ (0.56)	\$ 0.10
Diluted net income (loss) per share	\$ (0.19)	\$ (0.22)	\$ (0.56)	\$ 0.09

All of our outstanding stock options and restricted stock units were anti-dilutive during the three and six months ended July 26, 2009 and excluded from the computation of diluted earnings per share due to the net loss for the three and six months ended July 26, 2009.

All of our outstanding stock options were anti-dilutive during the three months ended July 27, 2008 and excluded from the computation of diluted earnings per share due to the net loss for the three months ended July 27, 2008. Diluted net income per share does not include the effect of anti-dilutive common equivalent shares from stock options outstanding of 33.1 million for the six months ended July 27, 2008.

Note 3 – Stock Option Purchase

In March 2009, we completed a cash tender offer for certain employee stock options. The tender offer applied to outstanding stock options held by employees with an exercise price equal to or greater than \$17.50 per share. None of the non-employee members of our Board of Directors or our officers who file reports under Section 16(a) of the Securities Exchange Act of 1934 were eligible to participate in the tender offer. All eligible options with exercise prices equal to or greater than \$17.50 per share but less than \$28.00 per share were eligible to receive a cash payment of \$3.00 per option in exchange for the cancellation of the eligible option. All eligible options with exercise prices equal to or greater than \$28.00 per share were eligible to receive a cash payment of \$2.00 per option in exchange for

the cancellation of the eligible option.

Our condensed consolidated statement of operations for the six months ended July 26, 2009 includes stock-based compensation charges related to the stock option purchase (in thousands):

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

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

Note 4 - Stock-Based Compensation

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

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

Equity Incentive Plans

We consider equity compensation to be long-term compensation and an integral component of our efforts to attract and retain exceptional executives, senior management and world-class employees. In March 2009, we introduced RSUs as a form of equity compensation to all employees. Currently, we grant stock options and RSUs under our equity incentive plans. The description of the key features of the NVIDIA Corporation 2007 Equity Incentive Plan, or the 2007 Plan, PortalPlayer, Inc. 1999 Stock Option Plan, or 1999 Plan, and 1998 Employee Stock Purchase Plan, may be read in conjunction with the audited financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended January 25, 2009.

Options granted to new employees that started before the beginning of fiscal year 2010 generally vest ratably quarterly over a three-year period. In addition, options granted prior to the beginning of fiscal year 2010 to existing employees in recognition of performance generally vest as to 25% of the shares two years and three months after the date of grant and as to the remaining 75% of the shares subject to the option in equal quarterly installments over a nine month period. Beginning in fiscal year 2010, options granted to new employees and to existing employees in recognition of performance generally vest as to 33.36% of the shares one year after the date of grant and as to the remaining 66.64% of the shares subject to the option in equal quarterly installments over the remaining period. Options granted under the 2007 Plan generally expire six years from the date of grant.

In general, RSUs are subject to the recipient's continuing service to NVIDIA. RSUs vest over three years at the rate of 33.36% on pre-determined dates that are close to the anniversary of the grant date and vest ratably on a semi-annual basis thereafter.

In addition to the stock-based compensation expense related to our cash tender offer to purchase certain employee stock options as described in Note 3 – Stock Option Purchase, our condensed consolidated statements of operations include stock-based compensation expense, net of amounts capitalized as inventory, as follows:

	Three Months Ended		Six Months Ended	
	July 26, 2009	July 27, 2008	July 26, 2009	July 27, 2008
Cost of revenue	\$ 4,828	\$ 3,333	\$ 7,058	\$ 6,469
Research and development	\$ 13,268	\$ 24,226	\$ 34,538	\$ 48,760
Sales, general and administrative	\$ 7,280	\$ 12,806	\$ 17,893	\$ 27,260

During the three and six months ended July 26, 2009, we granted approximately 0.5 million and 5.4 million stock options, respectively, with an estimated total grant-date fair value of \$1.8 million and \$28.8 million, respectively, and a per option weighted average grant-date fair value of \$4.50 and \$5.38, respectively. During the three and six months ended July 26, 2009, we granted approximately 0.2 million and 4.8 million RSUs, with an estimated total grant-date fair value of \$2.4 million and \$48.8 million, respectively, and a per RSU weighted average grant-date fair value of \$10.07 and \$10.17 respectively. Of the estimated total grant-date fair value, we estimated that the stock-based compensation expense related to the equity awards that are not expected to vest was \$0.3 million and \$5.0 million, respectively, for the three and six months ended July 26, 2009.

During the three and six months ended July 27, 2008, we granted approximately 0.9 million and 9.7 million stock options, respectively, with an estimated total grant-date fair value of \$8.4 million and \$95.4 million, respectively, and a per option weighted average grant-date fair value of \$9.07 and \$9.88, respectively. We did not grant any RSUs during the three months and six months ended July 27, 2008. Of the estimated total grant-date fair value, we estimated that the stock-based compensation expense related to the equity awards that are not expected to vest was \$1.4 million and \$15.7 million, respectively, for the three and six months ended July 27, 2008.

As of July 26, 2009 and July 27, 2008, the aggregate amount of unearned stock-based compensation expense related to our equity awards was \$114.8 million and \$223.9 million, respectively, adjusted for estimated forfeitures. As of July 26, 2009 and July 27, 2008, we expect to recognize the unearned stock-based compensation expense related to stock options over an estimated weighted average amortization period of 2.0 years and 1.8 years, respectively. As of July 26, 2009, we expect to recognize the unearned stock-based compensation expense related to RSUs over an estimated weighted average amortization period of 2.7 years. As of July 27, 2008, we did not grant any RSUs.

Valuation Assumptions

Our calculation of the fair value of stock option awards uses implied volatility rather than historical volatility as we expect that implied volatility will be more reflective of market conditions and thus a better indicator of our expected volatility than historical volatility. We also segregate options into groups of employees with relatively homogeneous exercise behavior in order to calculate the best estimate of fair value using the binomial valuation model. As such, the expected term assumption used in calculating the estimated fair value of our stock option awards using the binomial model is based on detailed historical data about employees' exercise behavior, vesting schedules, and death and disability probabilities. Our management believes the resulting binomial calculation provides a reasonable estimate of the fair value of our employee stock options.

We estimate forfeitures at the time of grant and revise the estimates for forfeiture, if necessary, in subsequent periods if actual forfeitures differ from those estimates. Forfeitures are estimated based on historical experience. If factors change and we employ different assumptions in future periods, the compensation expense that we record may differ significantly from what we have recorded in the current period.

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

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

	Three Months Ended		Six Months Ended	
	July 26, 2009	July 27, 2008	July 26, 2009	July 27, 2008
Stock Options	(Using a binomial model)			
Expected life (in years)	3.8-4.2	3.7 -5.0	3.8-5.8	3.6-5.7
Risk free interest rate	2.5-2.7 %	2.9% - 3.7 %	1.8-2.7 %	2.6% - 3.7%
Volatility	55-66 %	52% - 63 %	55-72 %	52% - 68%
Dividend Yield	-	-	-	-

	Three Months Ended		Six Months Ended	
	July 26, 2009	July 27, 2008	July 26, 2009	July 27, 2008
Employee Stock Purchase Plan	(Using a Black-Scholes model)			
Expected life (in years)	-	-	0.5-2.0	0.5 - 2.0
Risk free interest rate	-	-	0.5-1.0. %	1.6-1.8%
Volatility	-	-	73 %	68%
Dividend Yield	-	-	-	-

There were no shares issued under the employee stock purchase plan during the three months ended July 26, 2009 and July 27, 2008.

Equity Award Activity

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

	Options Outstanding (In thousands)	Weighted Average Exercise Price (Per Share)
Stock Options		
Balances, January 25, 2009	97,454	\$ 13.83
Granted	5,352	\$ 9.94
Exercised	(5,680)	\$ 4.36
Cancelled	(902)	\$ 12.82
Cancellations related to stock options purchase (1)	(28,532)	\$ 23.35
Balances, July 26, 2009	67,692	\$ 10.32

(1) Please refer to Note 3 of these condensed consolidated financial statements for further discussion related to our stock option purchase in March 2009.

Restricted Stock Units	RSUs (In thousands)	Weighted Average Grant-date fair value (Per Share)
Balances, January 25, 2009	-	\$-
Awarded	4,803	\$10.17
Vested	-	\$-
Forfeited	(50)	\$10.15
Balances, July 26, 2009	4,753	\$10.17

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

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

Balances, January 25, 2009	29,501
Stock options:	
Granted	(5,352)
Cancelled	902
Cancellations related to stock option purchase (1)	28,532
Restricted Stock Units:	
Granted	(4,803)
Cancelled	50
Balances, July 26, 2009	48,830

(1) Please refer to Note 3 of these condensed consolidated financial statements for further discussion related to our stock option purchase in March 2009.

Note 5 – Income Taxes

We recognized income tax expense (benefit) of (\$1.8) million and (\$25.7) million for the three months ended July 26, 2009 and July 27, 2008, respectively, and (\$25.3) million and \$10.5 million for the six months ended July 26, 2009 and July 27, 2008, respectively. Income tax expense (benefit) as a percentage of income before taxes, or our effective tax rate, was (1.7%) and (17.5%) for the three months ended July 26, 2009 and July 27, 2008, respectively, and (7.6%) and 15.9% for the six months ended July 26, 2009 and July 27, 2008, respectively.

The expected tax benefit derived from our loss before tax for the first six months of fiscal year 2010 at the United States federal statutory tax rate of 35% differs from our actual effective tax rate of (7.6%) due primarily to permanent tax differences related to stock-based compensation and losses recognized in tax jurisdictions where no tax benefit has been recognized, partially offset by the U.S. tax benefit of the federal research tax credit. Further, our annual projected effective tax rate of (3.9%) differs from our actual effective tax rate of (7.6%) primarily due to a one-time discrete item related to our stock option purchase completed in March 2009.

Our effective tax rate on income before tax for the first half of fiscal year 2009 is lower than the United States federal statutory rate of 35% due primarily to income earned in jurisdictions where that tax rate is lower than the United States federal statutory tax rate.

For the six months ended July 26, 2009, there have been no material changes to our tax years that remain subject to examination by major tax jurisdictions. Additionally, there have been no material changes to our unrecognized tax benefits and any related interest or penalties from our fiscal year ended January 25, 2009.

While we believe that we have adequately provided for all uncertain tax positions, amounts asserted by tax authorities could be greater or less than our accrued position. Accordingly, our provisions on federal, state and foreign tax related matters to be recorded in the future may change as revised estimates are made or the underlying matters are settled or otherwise resolved with the respective tax authorities. As of July 26, 2009, we do not believe that our estimates, as otherwise provided for, on such tax positions will significantly increase or decrease within the next twelve months.

NVIDIA CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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Note 6 - Marketable Securities

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

We performed an impairment review of our investment portfolio as of July 26, 2009. Based on our quarterly impairment review and having considered the guidance in the relevant accounting literature, we did not record any other than temporary impairment charges during the first half of fiscal years 2010 and 2009. We concluded that our investments were appropriately valued and that no additional other than temporary impairment charges were necessary on our portfolio of available for sale investments as of July 26, 2009.

The following is a summary of cash equivalents and marketable securities at July 26, 2009 and January 25, 2009:

	July 26, 2009			Estimated Fair Value
	Amortized Cost	Unrealized Gain	Unrealized Loss	
(In thousands)				
Debt securities of United States government agencies	\$ 433,830	\$ 4,472	\$ (84)	\$ 438,218
Debt securities issued by United States Treasury	285,455	821	(88)	286,188
Corporate debt securities	264,288	2,470	(125)	266,633
Mortgage backed securities issued by United States government-sponsored enterprises	159,165	1,821	(212)	160,774
Money market funds	142,918	-	-	142,918
Asset-backed securities	11,242	119	-	11,361
Total	\$ 1,296,898	\$ 9,703	\$ (509)	\$ 1,306,092
Classified as:				
Cash equivalents				\$ 363,772
Marketable securities				942,320
Total				\$ 1,306,092

	January 25, 2009			Estimated Fair Value
	Amortized Cost	Unrealized Gain	Unrealized Loss	
(In thousands)				

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Debt securities of United States government agencies	\$ 313,319	\$ 4,815	\$ (13)	\$ 318,121
Corporate debt securities	252,265	680	(1,771)	251,174
Mortgage backed securities issued by United States government-sponsored enterprises	162,243	361	(1,405)	161,199
Money market funds	139,046	-	-	139,046
Debt securities issued by United States Treasury	110,402	1,870	-	112,272
Asset-backed securities	39,014	71	(227)	38,858
Total	\$ 1,016,289	\$ 7,797	\$ (3,416)	\$ 1,020,670
Classified as:				
Cash equivalents				\$ 182,968
Marketable securities				837,702
Total				\$ 1,020,670

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

Net realized gains for the three and six months ended July 26, 2009, were \$0.2 million and \$1.0 million, respectively. Net realized gains (losses) for the three and six months ended July 27, 2008 were \$(0.1) million and \$1.2 million, respectively.

As of July 26, 2009, we held a money market investment in the Reserve International Liquidity Fund, Ltd., or the International Reserve Fund, which was valued at \$22.0 million, net of \$5.6 million of other than temporary impairment charges that we recorded during fiscal year 2009. The International Reserve Fund was reclassified out of cash and cash equivalents in our Condensed Consolidated Balance Sheet as of July 26, 2009 due to the halting of redemption requests in September 2008 by the International Reserve Fund. The \$22.0 million value of our holdings in the International Reserve Fund as of July 26, 2009 reflects an initial investment of \$130.0 million, reduced by \$102.4 million that we received from the International Reserve Fund during the first six months of fiscal year 2010 and the \$5.6 million other than temporary impairment charge we recorded against the value of this investment during fiscal year 2009 as a result of credit loss. The \$102.4 million we received was our portion of a payout of approximately 79% of the total assets of the International Reserve Fund. All of the underlying securities held by the International Reserve Fund are scheduled to mature by October 2009. We expect to receive the proceeds from our remaining investment in the International Reserve Fund, excluding some or all of the \$5.6 million impairment charges, after all the securities 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.

Note 7 – Fair Value of Cash Equivalents and Marketable Securities

We measure our cash equivalents and marketable securities at fair value. The fair values of our financial assets and liabilities are determined using quoted market prices of identical assets or quoted market prices of similar assets from active markets. 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:

	July 26, 2009	Fair value measurement at reporting date using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	High Level of Judgment (Level 3)
		(In thousands)		
Debt securities issued by US Government agencies (1)	\$ 438,218	\$ -	\$ 438,218	\$ -
Debt securities issued by United States Treasury (2)	286,188	-	286,188	-
Corporate debt securities (3)	266,633	-	266,633	-
Mortgage-backed securities issued by Government-sponsored entities (4)	160,774	-	160,774	-

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Money market funds (5)	142,918	120,954	-	21,964
Asset-backed Securities (4)	11,361	-	11,361	-
Total cash equivalents and marketable securities	\$ 1,306,092	\$ 120,954	\$ 1,163,174	\$ 21,964

- (1) Includes \$111,740 in Cash Equivalents and \$326,478 in Marketable Securities on the Condensed Consolidated Balance Sheet.
- (2) Includes \$120,080 in Cash Equivalents and \$166,108 in Marketable Securities on the Condensed Consolidated Balance Sheet.
- (3) Includes \$10,998 in Cash Equivalents and \$255,635 in Marketable Securities on the Condensed Consolidated Balance Sheet.
- (4) Included in Marketable Securities on the Condensed Consolidated Balance Sheet.
- (5) Includes \$120,954 in Cash Equivalents and \$21,964 in Marketable Securities on the Condensed Consolidated Balance Sheet.

For our money market funds that were held by the International Reserve Fund at July 26, 2009, 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 had filed for bankruptcy during fiscal year 2009 and, as such, our valuation of those securities was zero. The net result was that, during the third quarter of fiscal year 2009, we estimated the fair value of the International Reserve Fund's investments to be 95.7% of their last-known value and we recorded an other than temporary impairment charge of \$5.6 million as a result of credit loss. The \$22.0 million value of our holdings in the International Reserve Fund as of July 26, 2009 reflects an initial investment of \$130.0 million, reduced by \$102.4 million that we received from the International Reserve Fund during the first six months of fiscal year 2010 and the \$5.6 million other than temporary impairment charge we recorded against the value of this investment during fiscal year 2009 as a result of credit loss. Due to the inherent subjectivity and the significant judgment involved in the valuation of our holdings of International Reserve Fund, we have classified these securities under the Level 3 fair value hierarchy.

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

Balance, beginning of period, January 25, 2009	\$ 124,400
Transfer into Level 3	-
Other than temporary impairment	-
Redemption of funds	(102,436)
Balance, end of period, July 26, 2009	\$ 21,964

Total financial assets at fair value classified within Level 3 were 0.7% of total assets on our Condensed Consolidated Balance Sheet as of July 26, 2009.

NVIDIA CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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Note 8 - 3dfx

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

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

The conditional settlement reached in November 2005 never progressed through the confirmation process and the Trustee's case still remains pending appeal. As such, we have not reversed the accrual of \$30.6 million - \$5.6 million as a charge to settlement costs and \$25.0 million as additional purchase price for 3dfx - that we recorded during the three months ended October 30, 2005, pending resolution of the appeal of the Trustee's case. We do not believe the resolution of this matter will have a material impact on our results of operations or financial position.

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

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

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Note 9 - Intangible Assets

We currently amortize our intangible assets with definitive lives over periods ranging from one to ten years using a method that reflects the pattern in which the economic benefits of the intangible asset are consumed or otherwise used up or, if that pattern can not be reliably determined, using a straight-line amortization method. The components of our amortizable intangible assets are as follows:

	July 26, 2009			January 25, 2009		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
	(In thousands)					
Technology licenses	\$ 134,869	\$ (41,414)	\$ 93,455	\$ 130,654	\$ (34,610)	\$ 96,044
Acquired intellectual property	75,340	(42,795)	32,545	75,340	(35,200)	40,140
Patents	19,188	(9,510)	9,678	18,588	(7,671)	10,917
Total intangible assets	\$ 229,397	\$ (93,719)	\$ 135,678	\$ 224,582	\$ (77,481)	\$ 147,101

Amortization expense associated with intangible assets for the three and six months ended July 26, 2009 was \$7.9 million and \$16.2 million, respectively. Amortization expense associated with intangible assets for the three and six months ended July 27, 2008 was \$7.5 million and \$15.0 million, respectively. Future amortization expense related to the net carrying amount of intangible assets at July 26, 2009 is estimated to be \$15.6 million for the remainder of fiscal year 2010, \$27.6 million in fiscal year 2011, \$25.2 million in fiscal year 2012, \$18.9 million in fiscal year 2013, \$14.4 million in fiscal year 2014, and a total of \$34.0 million in fiscal year 2015 and fiscal years subsequent of fiscal year 2015.

Note 10 - Balance Sheet Components

Certain balance sheet components are as follows:

	July 26, 2009	January 25, 2009
	(In thousands)	
Inventories:		
Raw materials	\$ 53,599	\$ 122,024
Work in-process	65,868	38,747
Finished goods	159,749	377,063
Total inventories	\$ 279,216	\$ 537,834

At July 26, 2009, we had outstanding inventory purchase obligations totaling approximately \$492 million.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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	July 26, 2009	January 25, 2009
(In thousands)		
Prepaid and Other Current Assets:		
Non-trade receivable	\$ 23,184	\$ 696
Prepaid maintenance contracts	12,150	11,268
Other	15,214	27,830
Total prepaid and other current assets	\$ 50,548	\$ 39,794
	July 26, 2009	January 25, 2009
(In thousands)		
Accrued Liabilities:		
Accrued customer programs (1)	\$ 244,469	\$ 239,797
Warranty accrual (2)	221,903	150,629
Accrued payroll and related expenses	64,363	82,449
Accrued legal settlement (3)	30,600	30,600
Deferred rent	10,818	11,643
Deferred revenue	6,692	3,774
Other	36,498	40,835
Total accrued liabilities and other	\$ 615,343	\$ 559,727

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

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

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

	July 26, 2009	January 25, 2009
(In thousands)		
Other Long-term Liabilities:		
Deferred income tax liability	\$ 54,805	\$ 75,252
Income taxes payable, long term	49,182	49,248
Asset retirement obligation	9,812	9,515
Other long-term liabilities	20,820	17,835
Total other long-term liabilities	\$ 134,619	\$ 151,850

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Note 11 - Guarantees

Product Defect

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

During the second quarter of fiscal year 2010, we recorded an additional net warranty charge of \$120.0 million against cost of revenue to cover anticipated customer warranty, repair, return, replacement and other costs arising from a weak die/package material set in certain versions of our previous generation products used in notebook systems. This charge included an additional accrual of \$164.5 million for related estimated costs, offset by reimbursements from insurance carriers of \$44.5 million that we recorded during the second quarter of fiscal year 2010. In July 2008, we recorded a \$196.0 million charge against cost of revenue for the purpose of supporting the product repair costs of our affected customers around the world. Although the number of units that we estimate will be impacted by this issue remains consistent with our initial estimates in July 2008, the overall cost of remediation and repair of impacted systems has been higher than originally anticipated. The weak die/package material combination is not used in any of our products that are currently in production.

The previous generation products that are impacted were included in a number of notebook products that were shipped and sold in significant quantities. Certain notebook configurations of these products are failing in the field at higher than normal rates. While we have not been able to determine with certainty 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 products in their notebook system designs. We intend to fully support our customers in their repair and replacement of these impacted products that fail, and their other efforts to mitigate the consequences of these failures.

We continue to 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. During the second quarter of fiscal year 2010, we recorded \$44.5 million in related insurance reimbursements which partially offset the additional warranty charge of \$164.5 million included in cost of revenue. Additionally, we received \$8.0 million in reimbursements from insurance providers in fiscal year 2009. However, there can be no assurance that we will recover any additional 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 products.

Accrual for product warranty liabilities

Cost of revenue includes the estimated cost of product warranties that are calculated at the point of revenue recognition. Under limited circumstances, we may offer an extended limited warranty to customers for certain products. Additionally, we accrue for known warranty and indemnification issues if a loss is probable and can be reasonably estimated. The estimated product warranty liabilities for the three and six months ended July 26, 2009 and July 27, 2008 are as follows:

	Three Months Ended		Six Months Ended	
	July 26, 2009	July 27, 2008	July 26, 2009	July 27, 2008
	(In thousands)			
Balance at beginning of period	\$ 112,016	\$ 6,392	\$ 150,629	\$ 5,707
Additions (1)	164,639	196,569	164,639	197,254
Deductions (2)	(54,752)	(15,830)	(93,365)	(15,830)
Balance at end of period	\$ 221,903	\$ 187,131	\$ 221,903	\$ 187,131

(1) Includes \$164,450 for the three and six months ended July 26, 2009 and \$195,954 for the three and six months ended July 27, 2008 for incremental repair and replacement costs from a weak die/package material set.

(2) Includes \$48,796 and \$79,971 for the three and six months ended July 26, 2009 in payments related to the warranty accrual associated with incremental repair and replacement costs from a weak die/package material set.

In connection with certain agreements that we have executed in the past, we have at times provided indemnities to cover the indemnified party for matters such as tax, product and employee liabilities. We have also on occasion included intellectual property indemnification provisions in our technology related agreements with third parties. Maximum potential future payments cannot be estimated because many of these agreements do not have a maximum stated liability. As such, we have not recorded any liability in our Condensed Consolidated Financial Statements for such indemnifications.

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

Note 12 - Commitments and Contingencies

3dfx

On December 15, 2000, NVIDIA and one of our indirect subsidiaries entered into an Asset Purchase Agreement, or APA, to purchase certain graphics chip assets from 3dfx. The transaction closed on April 18, 2001. That acquisition, and 3dfx's October 2002 bankruptcy filing, led to four lawsuits against NVIDIA: two brought by 3dfx's former landlords, one by 3dfx's bankruptcy trustee and the fourth by a committee of 3dfx's equity security holders in the bankruptcy estate.

Landlord Lawsuits.

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

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

On July 17, 2008, the United States Court of Appeals for the Ninth Circuit held oral argument on the landlords' appeals. On November 25, 2008, the Court of Appeals issued its opinion affirming the dismissal of Carlyle's complaint in its entirety. The Court of Appeals also affirmed the dismissal of most of CarrAmerica's complaint, but reversed the District Court's dismissal of CarrAmerica's claims for interference with contractual relations and fraud. On December 8, 2008, Carlyle filed a Request for Rehearing En Banc, which CarrAmerica joined. That same day, Carlyle also filed a Motion for Clarification of the Court's Opinion. On January 22, 2009, the Court of Appeals denied the Request for Rehearing En Banc, but clarified its opinion affirming dismissal of the claims by stating that CarrAmerica had standing to pursue claims for interference with contractual relations, fraud, conspiracy and tort of another, and remanding Carlyle's case with instructions that the District Court evaluate whether the Trustee had abandoned any claims, which Carlyle might have standing to pursue. On April 2, 2009, Carlyle filed a petition for a writ of certiorari in the United States Supreme Court, seeking review of the Court of Appeals decision. We filed an opposition to that petition on June 8, 2009.

The District Court held a status conference in the CarrAmerica and Carlyle cases on March 9, 2009. That same day, 3dfx's bankruptcy Trustee filed in the bankruptcy court a Notice of Trustee's Intention to Compromise Controversy with Carlyle Fortran Trust. According to that Notice, the Trustee would abandon any claims it has against us for

intentional interference with contract, negligent interference with prospective economic advantage, aiding and abetting breach of fiduciary duty, declaratory relief, unfair business practices and tort of another, in exchange for which Carlyle will withdraw irrevocably its Proof of Claim against the 3dfx bankruptcy estate and waive any further right of distribution from the estate. In light of the Trustee's notice, the District Court ordered the parties to seek a hearing on the Notice on or before April 24, 2009, ordered Carlyle and CarrAmerica to file amended complaints by May 10, 2009, and set a further Case Management Conference for May 18, 2009. The parties subsequently filed a stipulation requesting that the District Court vacate the May 18, 2009 Case Management Conference date and other deadlines until after Bankruptcy Court rendered its decision. At a hearing on May 13, 2009, the Bankruptcy Court ruled that the Trustee had not abandoned any claims against us, and denied the Trustee's Notice of Intention to Compromise Controversy with Carlyle Fortran Trust without prejudice. Carlyle has filed a motion in the District Court for leave to file an interlocutory appeal from the order denying the Notice. We filed an opposition to that motion.

On July 7, 2009, the parties attended a Case Management Conference in the District Court for both the CarrAmerica and the Carlyle cases. On July 8, 2009, the District Court issued an order requiring that CarrAmerica file an amended complaint on or before August 10, 2009. CarrAmerica filed its amended complaint on August 10, 2009, alleging claims for interference with contractual relations, fraud, conspiracy, and tort of another. The District Court has set a hearing date of November 9, 2009, for any motion to dismiss CarrAmerica's amended complaint and for Carlyle's motion for leave to file an interlocutory appeal, and set a further case management conference for that date. We continue to believe that there is no merit to Carlyle or CarrAmerica's remaining claims.

Trustee Lawsuit.

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

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

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

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, where the appeal is pending. The District Court's hearing on the Trustee's appeal was held on June 10, 2009.

While the conditional settlement reached in November 2005 never progressed through the confirmation process, the Trustee's case still remains pending appeal. As such, we have not reversed the accrual of \$30.6 million – \$5.6 million as a charge to settlement costs and \$25.0 million as additional purchase price for 3dfx – that we recorded during the three months ended October 30, 2005, pending resolution of the appeal of the Trustee's case. We do not believe the resolution of this matter will have a material impact on our results of operations or financial position.

The Equity Committee Lawsuit.

On December 8, 2005, the Trustee filed a Form 8-K on behalf of 3dfx, disclosing the terms of the conditional settlement agreement between NVIDIA and the Creditor's Committee. Thereafter, certain 3dfx shareholders filed a petition with the Bankruptcy Court to appoint an official committee to represent the claimed interests of 3dfx shareholders. The court granted that petition and appointed an Equity Securities Holders' Committee, or the Equity Committee. The Equity Committee thereafter sought and obtained an order granting it standing to bring suit against

NVIDIA, for the benefit of the bankruptcy estate, to compel NVIDIA to pay the stock consideration then unpaid from the APA, and filed its own competing plan of reorganization/liquidation. The Equity Committee's plan assumes that 3dfx can raise additional equity capital that would be used to retire all of 3dfx's debts, and thus to trigger NVIDIA's obligation to pay six million shares of stock consideration specified in the APA. NVIDIA contends, among other things, that such a commitment is not sufficient and that its obligation to pay the stock consideration had long before been extinguished. On May 1, 2006, the Equity Committee filed its lawsuit for declaratory relief to compel NVIDIA to pay the stock consideration. In addition, the Equity Committee filed a motion seeking Bankruptcy Court approval of investor protections for Harbinger Capital Partners Master Fund I, Ltd., an equity investment fund that conditionally agreed to pay no more than \$51.5 million for preferred stock in 3dfx. The hearing on that motion was held on January 18, 2007, and the Bankruptcy Court approved the proposed protections.

After the Bankruptcy Court denied our motion to dismiss on September 6, 2006, the Equity Committee again amended its complaint, and NVIDIA moved to dismiss that amended complaint as well. On December 21, 2006, the Bankruptcy Court granted the motion as to one of the Equity Committee's claims, and denied it as to the others. However, the Bankruptcy Court also ruled that NVIDIA would only be required to answer the first three causes of action by which the Equity Committee seeks determinations that (1) the APA was not terminated before 3dfx filed for bankruptcy protection, (2) the 3dfx bankruptcy estate still holds some rights in the APA, and (3) the APA is capable of being assumed by the bankruptcy estate.

Because of the trial of the Trustee's fraudulent transfer claims against NVIDIA, the Equity Committee's lawsuit did not progress substantially in 2007. On July 31, 2008, the Equity Committee filed a motion for summary judgment on its first three causes of action. On September 15, 2008, NVIDIA filed a cross-motion for summary judgment. On October 24, 2008, the Court held a hearing on the parties' cross-motions for summary judgment. On January 6, 2009, the Bankruptcy Court issued a Memorandum Decision granting NVIDIA's motion and denying the Equity Committee's motion, and entered an Order to that effect on January 30, 2009. On February 27, 2009, the Bankruptcy Court entered judgment in favor of NVIDIA. The Equity Committee has waived its right to appeal by stipulation entered on February 18, 2009, and the judgment is now final.

Rambus Corporation

On July 10, 2008, Rambus Corporation, or Rambus, filed suit against NVIDIA Corporation, asserting patent infringement of 17 patents claimed to be owned by Rambus. Rambus seeks damages, enhanced damages and injunctive relief. The lawsuit was filed in the Northern District of California in San Jose, California. On July 11, 2008, NVIDIA filed suit against Rambus in the Middle District of North Carolina asserting numerous claims, including antitrust and other claims. NVIDIA seeks damages, enhanced damages and injunctive relief. Rambus has since dropped two patents from its lawsuit in the Northern District of California. The two cases have been consolidated into a single proceeding in the Northern District of California. On April 13, 2009, the Court issued an order staying motion practice and allowing only document discovery to proceed. On August 5, 2009, the Court entered an order setting a case management conference for February 12, 2010.

On November 6, 2008, Rambus filed a complaint alleging a violation of 19 U.S.C. Section 1337 based on a claim of patent infringement of nine Rambus patents against NVIDIA and 14 other respondents with the U.S. International Trade Commission, or ITC. Rambus has subsequently withdrawn four of the nine patents at issue. The complaint seeks an exclusion order barring the importation of products that allegedly infringe the now five Rambus patents. The ITC has instituted the investigation and a trial is currently scheduled to begin October 13, 2009. NVIDIA intends to pursue its offensive and defensive cases vigorously in both actions.

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

Product Defect Litigation and Securities Cases

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

The District Court has entered orders deeming all of the above cases related under the relevant local rules. On December 11, 2008, NVIDIA filed a motion to consolidate all of the aforementioned consumer class action cases. On February 26, 2009, the District Court consolidated the cases, as well as two other cases pending against Hewlett-Packard, under the caption "The NVIDIA GPU Litigation" and ordered the plaintiffs to file lead counsel motions by March 2, 2009. On March 2, 2009, several of the parties filed motions for appointment of lead counsel and briefs addressing certain related issues. On April 10, 2009, the District Court appointed Milberg LLP lead counsel. On May 6, 2009, the plaintiffs filed an Amended Consolidated Complaint, alleging claims for violations of California Business and Professions Code Section 17200, Breach of Implied Warranty under California Civil Code Section 1792, Breach of the Implied Warranty of Merchantability under the laws of 27 other states, Breach of Warranty under the Magnuson-Moss Warranty Act, Unjust Enrichment, violations of the New Jersey Consumer Fraud Act, Strict Liability and Negligence, and violation of California's Consumer Legal Remedies Act. On May 14, 2009, the District Court entered a case schedule order, which set a September 28, 2009 hearing date for an anticipated motion to dismiss, a December 7, 2009 hearing date for anticipated class certification motion, and a July 12, 2010 fact discovery deadline. The District Court subsequently entered an order resetting the hearing date for an anticipated motion to dismiss for October 19, 2009, based on a stipulation of the parties.

In September 2008, three putative securities class actions, or the Actions, were filed in the United States District Court for the Northern District of California arising out of our announcements on July 2, 2008, that we would take a charge against cost of revenue to cover anticipated costs and expenses arising from a weak die/package material set in certain versions of our previous generation MCP and GPU products and that we were revising financial guidance for our second quarter of fiscal year 2009. The Actions purport to be brought on behalf of purchasers of NVIDIA stock and assert claims for violations of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, as amended. On October 30, 2008, the Actions were consolidated under the caption *In re NVIDIA Corporation Securities Litigation*, Civil Action No. 08-CV-04260-JW (HRL). Lead Plaintiffs and Lead Plaintiffs' Counsel were appointed on December 23, 2008. On February 6, 2009, co-Lead Plaintiff filed a Writ of Mandamus with the Ninth Circuit Court of Appeals challenging the designation of co-Lead Plaintiffs' Counsel. On February 19, 2009, co-Lead Plaintiff filed with the District Court, a motion to stay the District Court proceedings pending resolution of the Writ of Mandamus by the

Ninth Circuit. On February 24, 2009, Judge Ware granted the stay. The Writ is still pending in the Court of Appeals, and oral argument is scheduled for September 1, 2009. We intend to take all appropriate action with respect to the above cases.

Intel Corporation

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

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

Discovery is proceeding and trial is scheduled to commence before Vice Chancellor Strine on August 23, 2010. NVIDIA disputes Intel's claims and intends to vigorously defend these claims, as well as pursue its counterclaims.

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

Note 13 - Stockholders' Equity

Stock Repurchase Program

During fiscal year 2005, we announced that our Board of Directors, or 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 Rule 10b-18, subject to market conditions, applicable legal requirements, and other factors. The program does not obligate NVIDIA to acquire any particular amount of common stock and the program may be suspended at any time at our discretion. As part of our share repurchase program, we have entered into, and we may continue to enter into, structured share repurchase transactions with financial institutions. These agreements generally require that we make an up-front payment in exchange for the right to receive a fixed number of shares of our common stock upon execution of the agreement, and a potential incremental number of shares of our common stock, within a pre-determined range, at the end of the term of the agreement.

During the three and six months ended July 26, 2009, we did not enter into any structured share repurchase transactions or otherwise purchase any shares of our common stock. Through July 26, 2009, we have repurchased an aggregate of 90.9 million shares under our stock repurchase program for a total cost of \$1.46 billion. As of July 26, 2009, we are authorized, subject to certain specifications, to repurchase shares of our common stock up to an additional amount of \$1.24 billion through May 2010.

Please refer to Note 3 and Note 4 of the Notes to Condensed Consolidated Financial Statements for further information regarding stock-based compensation related to our March 2009 stock option purchase and related to equity awards granted under our equity incentive programs.

Convertible Preferred Stock

As of July 26, 2009 and January 25, 2009, there were no shares of preferred stock outstanding.

Note 14 - Comprehensive Income (Loss)

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

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	Three Months Ended		Six Months Ended	
	July 26, 2009	July 27, 2008	July 27, 2009	July 27, 2008
	(In thousands)			
Net income (loss)	\$ (105,302)	\$ (120,929)	\$ (306,640)	\$ 55,876
Net change in unrealized gains (losses) on available-for-sale securities, net of tax	3,896	(2,545)	5,505	(8,176)
Reclassification adjustments for net realized gains (losses) on available-for-sale securities included in net income (loss), net of tax	(157)	30	(700)	(824)
Total comprehensive income (loss)	\$ (101,563)	\$ (123,444)	\$ (301,835)	\$ 46,876

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

Note 15 - Segment Information

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

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 professional solutions business, or 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 media and communications processor, or MCP, business which is comprised of NVIDIA nForce core logic and motherboard GPU products; and our consumer products business, or CPB, which is comprised of our GoForce and Tegra 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.

In addition to these operating segments, we have the “All Other” category that includes human resources, legal, finance, general administration, corporate marketing expenses and charges related to the stock option purchase, all of which total \$56.8 million and \$256.2 million, respectively, for three and six months ended July 26, 2009, and total \$80.8 million and \$156.9 million, respectively, for the three and six months ended July 27, 2008, 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.

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

	GPU	PSB	MCP	CPB	All Other	Consolidated
	(In thousands)					
Three Months Ended July 26, 2009:						
Revenue	\$ 372,413	\$ 116,626	\$ 237,411	\$ 46,151	\$ 3,919	\$ 776,520
Depreciation and amortization expense	\$ 14,728	\$ 5,211	\$ 10,121	\$ 4,338	\$ 14,924	\$ 49,322
Operating income (loss)	\$ (144,717)	\$ 41,365	\$ 53,126	\$ 3,455	\$ (63,336)	\$ (110,107)
Three Months Ended July 27, 2008:						
Revenue	\$ 503,489	\$ 179,653	\$ 166,781	\$ 34,625	\$ 8,128	\$ 892,676
Depreciation and amortization expense	\$ 13,826	\$ 5,241	\$ 7,756	\$ 4,600	\$ 14,440	\$ 45,863
Operating income (loss)	\$ (41,595)	\$ 83,686	\$ (107,072)	\$ (6,359)	\$ (84,052)	\$ (155,392)

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Six Months Ended July 26,
2009:

Revenue	\$ 727,284	\$ 222,774	\$ 423,855	\$ 58,032	\$ 8,806	\$ 1,440,751
Depreciation and amortization expense	\$ 30,183	\$ 10,333	\$ 19,871	\$ 8,709	\$ 30,884	\$ 99,980
Operating income (loss)	\$ (156,364)	\$ 73,647	\$ 45,253	\$ (26,430)	\$ (277,178)	\$ (341,072)

Six Months Ended July 27,
2008:

Revenue	\$ 1,204,978	\$ 383,080	\$ 361,874	\$ 77,090	\$ 19,042	\$ 2,046,064
Depreciation and amortization expense	\$ 26,540	\$ 9,866	\$ 15,426	\$ 9,518	\$ 26,081	\$ 87,431
Operating income (loss)	\$ 127,452	\$ 194,014	\$ (103,492)	\$ (10,209)	\$ (160,178)	\$ 47,587

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

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		Six Months Ended	
	July 26, 2009	July 27, 2008	July 26, 2009	July 27, 2008
	(In thousands)			
Revenue:				
China	\$ 323,478	\$ 269,266	\$ 583,628	\$ 636,692
Taiwan	203,185	272,078	369,621	663,706
Other Asia Pacific	95,151	171,000	165,635	338,854
United States	59,882	77,464	111,772	171,295
Other Americas	50,469	21,349	121,072	22,044
Europe	44,355	81,519	89,023	213,473
Total revenue	\$ 776,520	\$ 892,676	\$ 1,440,751	\$ 2,046,064

Revenue from significant customers, those representing 10% or more of total revenue aggregated approximately 12% of our total revenue from one customer for the three and six months ended July 26, 2009. Revenue from significant customers, those representing 10% or more of total revenue aggregated approximately 13% and 21% of our total revenue from one customer and two customers for the three and six months ended July 27, 2008.

Accounts receivable from significant customers, those representing 10% or more of total accounts receivable aggregated approximately 12% of our accounts receivable balance from one customer at July 26, 2009 and approximately 38% of our accounts receivable balance from three customers at January 25, 2009.

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

Forward-Looking Statements

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

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

NVIDIA, GeForce, GoForce, Quadro, NVIDIA Quadro Plex, NVIDIA nForce, CUDA, Tesla, PhysX, ION, Tegra, 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 25, 2009 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 graphics processing unit, or the GPU. Our products are designed to generate realistic, interactive graphics on workstations, personal computers, game consoles and mobile 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 GoForce and Tegra 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, or OEMs, original design manufacturers, or ODMs, add-in-card manufacturers, system builders and consumer electronics companies worldwide utilize NVIDIA 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 second quarter of fiscal year 2010, we delivered our first 40nm GPUs to customers.

Microsoft's Direct Compute is a new GPU Computing application programming interface, or API, that runs on our current Compute Unified Device Architecture, or CUDA. Direct Compute allows developers to harness the parallel computing power of our GPUs to create compelling computing applications in consumer and professional markets. As part of the Direct Compute presentation at the Game Developer Conference (GDC) in March 2009, we demonstrated three such applications running on a GeForce GTX 280 GPU. We support languages and API's that enable developers to access the parallel processing power of the GPU. In addition to Direct Compute and our CUDA C extensions, there are other programming models available including OpenCL. During the first quarter of fiscal year 2010, we released our OpenCL driver and software development kit to developers participating in our OpenCL software Early Access Program.

In addition to graphics leadership, we are focusing on leading the industry with physics processing and evangelizing the benefits of utilizing the GPU for parallel computing. Our PhysX engine and library is now available for PCs, game consoles and smart phones. Game developers can utilize PhysX to create environments using physics simulations that are dynamic, realistic and interactive. PhysX has been adopted by many of the video game industry's top companies.

Professional Solutions Business

Corporate demand, which comprises a substantial percentage of the demand for professional workstation products, has not shown any significant signs of economic recovery. This appears to reflect ongoing constrained corporate budgets and redeployment and/or upgrade activity of older equipment by customers. Workstation product revenue currently comprises a significant portion of our total PSB revenue. Therefore, until corporate demand recovers, we expect this trend to continue to have a negative impact on our overall Company gross profit and gross margin, as the gross margin experienced by our PSB is generally higher than our overall Company gross margin.

During the second quarter of fiscal year 2010, we launched our Quadro Plex SVS. Scalable visual computing is a platform for professionals who interact with 3D models and analyze large volumes of data. For Quadro, we also launched the OptiX ray tracing engine, part of a suite of application acceleration engines for software developers. This suite also includes engines for managing 3D data and scenes, scaling performance across multiple GPUs and real-time modeling of hyper-realistic physical and environmental effects.

During the second quarter of fiscal year 2010, we also announced that AMBER, one of the most popular molecular dynamics codes, was now accelerated by CUDA. AMBER is used by researchers in academia and pharmaceutical companies to research new drugs. Accelerated by CUDA, AMBER now runs up to 50 times faster on a GPU than on a CPU.

Commencing in the second quarter of fiscal year 2010, HP and Supermicro began carrying our Tesla computing solution products, joining a global list of OEMs, including Cray, Dell, HP, Lenovo, SGI and Sun.

During the first quarter of fiscal year 2010, five new consumer applications were launched that are accelerated by the CUDA architecture on our GPUs – Super LoiloScope Mars, for video editing, ArcSoft SimHD, for DVD image enhancement, Nero Move It and Cyberlink MediaShow Espresso, for video format conversion, and Motion DSP vReveal, for real-time video quality enhancement. We recently collaborated with a leading Chinese geophysical services provider to unveil the launch of a new Tesla-based hardware and seismic software suite that accelerates the

performance of complex seismic data computation for oil and gas companies in China.

During the first quarter of fiscal year 2010, we also collaborated with the investment banking division of a leading European financial institution to replace their CPU cores with a smaller cluster consisting of CPU servers and two Tesla GPU-based S1070 systems, which require significantly less power. Factoring the acceleration in processing times achieved using Tesla GPUs, the division is using almost 200 times less electricity than before.

MCP Business

We are currently focused on energizing the PC market by transforming Intel PCs into a premium experience typically found in higher priced laptops and desktops. Our strategy is to combine the ION mGPU found in new desktop and notebook PCs with the Intel Celeron, Core 2 Duo, or Atom CPUs. These combinations create a platform that enables a premium PC experience in a small form factor – enabling netbooks and all-in-one PCs to play rich media content and popular games in high definition, or HD.

At Computex 2009, our ION platform was awarded the Best Choice award. Of the 21 ION-related design wins we announced at Computex 2009, we are already shipping nine of them, and we expect the remaining 12 designs to ship in the third quarter of fiscal year 2010. We have announced five more design wins since Computex. Additionally, along with Adobe Systems Incorporated, or Adobe, we announced GPU acceleration for the Flash player, bringing Internet video to a new class of low-power PCs and Internet devices.

During the first half of fiscal year 2010, we saw signs of increased demand for our products designed for the mainstream AMD integrated desktop market as well as for our ION products and other products that are designed for the Intel-based integrated notebook market.

During the first quarter of fiscal year 2010, we collaborated with Acer to introduce the Acer AspireRevo. The Acer AspireRevo is no larger than a typical hardcover book, but has a fully capable desktop with advanced graphics and several multimedia features.

Consumer Products Business

During the first quarter of fiscal year 2010, we demonstrated the Tegra 600 Series computer-on-a-chip that enables an always-on, always-connected HD netbook that can go days between battery charges. During the second quarter of fiscal year 2010, it was revealed that Microsoft's new Zune HD product would be based on Tegra and we have started ramping up volume shipments of Tegra.

Warranty Accrual

During the second quarter of fiscal year 2010, we recorded an additional net warranty charge of \$120.0 million against cost of revenue to cover anticipated customer warranty, repair, return, replacement and other costs arising from a weak die/package material set in certain versions of our previous generation products used in notebook systems. This charge included an additional accrual of \$164.5 million for related estimated costs, offset by reimbursements from insurance carriers of \$44.5 million that we recorded during the second quarter of fiscal year 2010. In July 2008, we recorded a \$196.0 million charge against cost of revenue for the purpose of supporting the product repair costs of our affected customers around the world. Although the number of units that we estimate will be impacted by this issue remains consistent with our initial estimates in July 2008, the overall cost of remediation and repair of impacted systems has been higher than originally anticipated. The weak die/package material combination is not used in any of our products that are currently in production.

The previous generation products that are impacted were included in a number of notebook products that were shipped and sold in significant quantities. Certain notebook configurations of these products are failing in the field at higher than normal rates. While we have not been able to determine with certainty 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 products in their notebook system designs. We intend to fully support our customers in their repair and replacement of these impacted products that fail, and their other efforts to mitigate the consequences of these failures.

We continue to 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. During the second quarter of fiscal year 2010, we recorded \$44.5 million in related insurance reimbursements which partially offset the additional warranty charge of \$164.5 million included in cost of revenue. Additionally, we received \$8.0 million in reimbursements from insurance providers in fiscal year 2009. However, there can be no assurance that we will recover any additional 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 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 12 of the Notes to the Condensed Consolidated Financial Statements this Form 10-Q for further information regarding this litigation.

Stock Option Purchase

In March 2009, we completed a cash tender offer for certain employee stock options. We use equity to promote employee retention and provide an incentive vehicle valued by employees that is also aligned to stockholder interest. However, our stock price had declined significantly during fiscal 2009, and all of the eligible options were

“out-of-the-money” (i.e., had exercise prices above our then-current common stock price). Therefore, we provided an incentive to employees with an opportunity to obtain a cash payment for their eligible options, while reducing our existing overhang and potential stockholder dilution from such stock options. The tender offer applied to outstanding stock options held by employees with an exercise price equal to or greater than \$17.50 per share. None of the non-employee members of our Board of Directors or our officers who file reports under Section 16(a) of the Securities Exchange Act of 1934, including our former Chief Financial Officer, Marvin D. Burkett, were eligible to participate in the tender offer.

All eligible options with exercise prices equal to or greater than \$17.50 per share but less than \$28.00 per share were eligible to receive a cash payment of \$3.00 per option in exchange for the cancellation of the eligible option. All eligible options with exercise prices equal to or greater than \$28.00 per share were eligible to receive a cash payment of \$2.00 per option in exchange for the cancellation of the eligible option. A total of 28.5 million options were tendered under the offer for an aggregate cash purchase price of \$78.1 million, which was paid in exchange for the cancellation of the eligible options. As a result of the tender offer, we incurred a charge of \$140.2 million consisting of the remaining unamortized stock based compensation expense associated with the unvested portion of the options tendered in the offer, stock-based compensation expense resulting from amounts paid in excess of the fair value of the underlying options, plus associated payroll taxes and professional fees. The stock option purchase charge of \$140.2 million relates to personnel associated with cost of revenue (for manufacturing personnel), research and development, and sales, general and administrative of \$11.4 million, \$90.5 million, and \$38.3 million, respectively.

Financial Information by Business Segment and Geographic Data

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

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 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 motherboard GPU products; and our CPB, which is comprised of our GoForce and Tegra 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, corporate marketing expenses and charges related to the stock option purchase, all of which total \$56.8 million and \$256.2 million, respectively, for three and six months ended July 26, 2009, and total \$80.8 million and \$156.9 million, respectively, for the three and six months ended July 27, 2008, 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 condensed consolidated statements of operations expressed as a percentage of revenue.

	Three Months Ended		Six Months Ended	
	July 26, 2009	July 27, 2008	July 26, 2009	July 27, 2008
Revenue	100.0	100.0	100.0	100.0
Cost of revenue	79.8	83.2	76.0	67.5
Gross profit	20.2	16.8	24.0	32.5
Operating expenses				
Research and development	24.8	23.9	34.3	21.1
Sales, general and administrative	9.5	10.4	13.4	9.1
Total operating expenses	34.3	34.3	47.7	30.2
Operating income (loss)	(14.1)	(17.5)	(23.7)	2.3
Interest and other income, net	0.4	1.0	0.6	0.9
Income (loss) before income tax expense (benefit)	(13.7)	(16.5)	(23.1)	3.2