NVIDIA CORP
Form 10-Q
August 20, 2014

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

FORM 10-Q

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

For the quarterly period ended July 27, 2014

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 Q No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes Q No o

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

Accelerated filer o

Large accelerated filer x

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

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

The number of shares of common stock, $0.001 par value, outstanding as of August 15, 2014, was 541,915,105.

NVIDIA CORPORATION
FORM 10-Q
FOR THE QUARTER ENDED July 27, 2014

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WHERE YOU CAN FIND MORE INFORMATION

Investors and others should note that we announce material financial information to our investors using our investor relations website, press releases, SEC filings and public conference calls and webcasts. We also use the following social media channels as a means of disclosing information about the company, our products, our planned financial and other announcements and attendance at upcoming investor and industry conferences, and other matters and for complying with our disclosure obligations under Regulation FD:

NVIDIA Twitter Account (https://twitter.com/NVIDIA)

NVIDIA Company Blog (http://blogs.nvidia.com/)

NVIDIA Facebook Page (https://www.facebook.com/NVIDIA)

NVIDIA LinkedIn Page (http://www.linkedin.com/company/nvidia?trk=hb_tab_compy_id_3608)

In addition, investors and others can use the Pulse news reader to subscribe to the NVIDIA Daily News feed and can view NVIDIA videos on YouTube.

The information we post through these social media channels may be deemed material. Accordingly, investors should monitor these accounts and the blog, in addition to following our press releases, SEC filings and public conference calls and webcasts. This list may be updated from time to time. The information we post through these channels is not a part of this quarterly report on Form 10-Q. These channels may be updated from time to time on NVIDIA's investor relations website.

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)

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

	Three Months Ended		Six Months Ended	
	July 27, 2014	July 28, 2013	July 27, 2014	July 28, 2013
Revenue	$1,102,824	$977,238	$2,205,611	$1,931,977
Cost of revenue	483,850	431,700	982,435	867,871
Gross profit	618,974	545,538	1,223,176	1,064,106
Operating expenses				
Research and development	337,124	331,738	671,387	658,899
Sales, general and administrative	118,671	108,266	237,251	216,892
Total operating expenses	455,795	440,004	908,638	875,791
Income from operations	163,179	105,534	314,538	188,315
Interest income	6,829	3,865	12,539	8,941
Interest expense	11,526	836	22,997	1,689
Other income (expense), net	(3,857)	3,257	13,827	4,315
Income before income tax expense	154,625	111,820	317,907	199,882
Income tax expense	26,649	15,372	53,415	25,543
Net income	$127,976	$96,448	$264,492	$174,339
Net income per share:				
Basic	$0.23	$0.16	$0.47	$0.29
Diluted	$0.22	$0.16	$0.46	$0.29
Weighted average shares used in per share computation:				
Basic	558,223	585,345	558,657	601,109
Diluted	570,572	592,006	570,599	606,051
Cash dividends declared and paid per common share	$0.085	$0.075	$0.170	$0.150

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	Three Months Ended		Six Months Ended	
	July 27, 2014	July 28, 2013	July 27, 2014	July 28, 2013
Net income	$127,976	$96,448	$264,492	$174,339
Other comprehensive loss, net of tax:				
Net change in unrealized losses on available-for-sale securities, net of tax benefit (expense) of $118 and ($351) for the three and six months ended July 27, 2014, respectively, and $355 and $78 for the corresponding periods of fiscal year 2014, respectively	(1,931)	(3,377)	(247)	(2,986)
Reclassification adjustments for net realized gains on available-for-sale securities included in net income, net of tax effects of $30 and $136 for the three and six months ended July 27, 2014, respectively, and $549 and $591 for the corresponding periods of fiscal year 2014, respectively	(55)	(1,019)	(252)	(1,098)
Other comprehensive loss	$(1,986)	$(4,396)	$(499)	$(4,084)
Total comprehensive income	$125,990	$92,052	$263,993	$170,255

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	July 27, 2014	January 26, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	$515,092	$1,151,587
Marketable securities	3,870,962	3,520,223
Accounts receivable, net	469,625	426,357
Inventories	387,434	387,765
Prepaid expenses and other	67,776	70,285
Deferred income taxes	66,697	68,494
Total current assets	5,377,586	5,624,711
Property and equipment, net	556,911	582,740
Goodwill	643,179	643,179
Intangible assets, net	260,613	296,012
Other assets	95,430	104,252
Total assets	$6,933,719	$7,250,894
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$261,627	$324,391
Accrued liabilities and other	607,102	621,105
Total current liabilities	868,729	945,496
Long-term debt	1,370,249	1,356,375
Other long-term liabilities	374,113	475,125
Capital lease obligations, long-term	15,842	17,500
Commitments and contingencies - see Note 12	—	—
Stockholders' equity:		
Preferred stock	—	—
Common stock	744	732
Additional paid-in capital	3,682,742	3,483,342
Treasury stock, at cost	(3,058,149)	(2,537,295)
Accumulated other comprehensive income	4,378	4,877
Retained earnings	3,675,071	3,504,742
Total stockholders' equity	4,304,786	4,456,398
Total liabilities and stockholders' equity	$6,933,719	$7,250,894

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 27, 2014	July 28, 2013
Cash flows from operating activities:		
Net income	$264,492	$174,339
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	110,690	121,584
Stock-based compensation expense	73,936	65,792
Amortization of debt discount	13,874	—
Gain on sale of long-lived assets and investments	(14,482)	—
Deferred income taxes	38,313	(611)
Tax benefits from stock-based compensation	(6,843)	(17,360)
Other	14,124	8,867
Changes in operating assets and liabilities:		
Accounts receivable	(45,747)	37,271
Inventories	508	34,722
Prepaid expenses and other current assets	2,510	(4,956)
Deposits and other assets	1,028	4,445
Accounts payable	(63,648)	(36,452)
Accrued liabilities and other long-term liabilities	(141,451)	(115,522)
Net cash provided by operating activities	247,304	272,119
Cash flows from investing activities:		
Purchases of marketable securities	(1,682,854)	(936,214)
Proceeds from sale of marketable securities	869,087	1,248,511
Proceeds from maturities of marketable securities	451,474	320,838
Proceeds from sale of long-lived assets and investments	20,862	—
Purchases of property and equipment and intangible assets	(51,595)	(150,653)
Other	(250)	(1,450)
Net cash provided by (used in) investing activities	(393,276)	481,032
Cash flows from financing activities:		
Proceeds from issuance of common stock under employee stock plans	98,220	31,303
Payments under capital lease obligations	(1,423)	(1,169)
Tax benefits from stock-based compensation	6,843	17,360
Payments for repurchases of common stock	(500,000)	(850,000)
Dividends paid	(94,163)	(89,610)
Other	—	(2,500)
Net cash used in financing activities	(490,523)	(894,616)
Change in cash and cash equivalents	(636,495)	(141,465)
Cash and cash equivalents at beginning of period	1,151,587	732,786
Cash and cash equivalents at end of period	$515,092	$591,321
Supplemental disclosures of cash flow information:		
Cash paid for income taxes, net	$6,766	$5,083
Cash paid for interest	$8,623	$1,294
Other non-cash activities:		
Assets acquired by assuming related liabilities	$5,570	$3,725

Change in unrealized losses from marketable securities	$(499)	$(4,084)

See accompanying Notes to Condensed Consolidated Financial Statements.

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

Note 1 - Summary of Significant Accounting Policies

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements were prepared in accordance with accounting principles generally accepted in the United States of America, or U.S. GAAP, for interim financial information and with the instructions to Form 10-Q and Article 10 of Securities and Exchange Commission, or SEC, Regulation S-X. In the opinion of management, all adjustments, consisting only of normal recurring adjustments except as otherwise noted, considered necessary for a fair statement of results of operations and financial position have been included. The results for the interim periods presented are not necessarily indicative of the results expected for any future period. The following information should be read in conjunction with the audited financial statements and notes thereto included in our Annual Report on Form 10-K for the fiscal year ended January 26, 2014.

Fiscal Year

We operate on a 52- or 53-week year, ending on the last Sunday in January. Fiscal year 2015 and fiscal year 2014 are both 52-week years. The second quarters of fiscal years 2015 and 2014 are both 13-week quarters.

Principles of Consolidation

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

Reclassifications

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

Use of Estimates

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

Adoption of New and Recently Issued Accounting Pronouncements

In June 2014, the Financial Accounting Standards Board, or FASB, issued new guidance related to stock-based compensation. The new guidance requires that a performance target that affects vesting, and that could be achieved after the requisite service period is rendered, be treated as a performance condition. The new guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. We currently do not have awards with a performance target where the employee would be eligible to vest in the award regardless of whether the employee is rendering service on the date the performance target is achieved. Therefore, we believe, the adoption of this new accounting guidance will not have an impact on our consolidated financial statements.

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

In May 2014, the FASB issued a new accounting standard update that creates a single source of revenue guidance under U.S. GAAP for all companies, in all industries. Under the new standard, recognition of revenue occurs when a customer obtains control of promised goods or services in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In addition, the new guidance requires that reporting companies disclose the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers, including significant judgments and estimates used. This new guidance is effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Early adoption is not permitted. We may adopt this guidance either by using a full retrospective approach for all periods presented in the period of adoption or a modified retrospective approach. We are currently evaluating the impact of this accounting guidance on our consolidated financial statements and have not yet determined which transition method we will apply.
In July 2013, the FASB issued updated guidance regarding the presentation of unrecognized tax benefits when a net operating loss carry forward, similar tax loss, or tax credit carry forward exists. The guidance requires that an unrecognized tax benefit, or a portion of an unrecognized tax benefit, be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carry forward, a similar tax loss, or a tax credit carry forward when settlement in this manner is available under the tax law. We adopted this guidance in our interim period ended April 27, 2014. The adoption of this guidance did not impact our consolidated financial statements.

Note 2 - Stock-Based Compensation

Our stock-based compensation expense is associated with stock options, restricted stock units, or RSUs, and performance stock units, or PSUs, and is measured based on the estimated fair value of equity awards at the grant date.
We estimate the fair value of employee stock options on the date of grant using a binomial model and recognize the expense using a straight-line attribution method over the requisite employee service period. We use the closing trading price of our common stock on the date of grant, minus a dividend yield discount, as the fair value of awards of RSUs and PSUs. The compensation expense for the RSUs is recognized using a straight-line attribution method over the requisite employee service period while compensation expense for PSUs is recognized using an accelerated amortization model. We estimate the fair value of shares to be issued under our employee stock purchase plan using the Black-Scholes model at the commencement of an offering period in March and September of each year. Stock-based compensation for our employee stock purchase plan is expensed using an accelerated amortization model.
Our condensed consolidated statements of income include stock-based compensation expense, net of amounts capitalized as inventory, as follows:

	Three Months Ended		Six Months Ended	
	July 27, 2014	July 28, 2013	July 27, 2014	July 28, 2013
	(In thousands)		(In thousands)	
Cost of revenue	$2,656	$2,168	$5,575	$4,821
Research and development	21,462	18,555	41,956	40,490
Sales, general and administrative	14,297	11,672	26,405	20,481
Total	$38,415	$32,395	$73,936	$65,792

During the three and six months ended July 27, 2014, we granted 78,129 and 85,929 stock options, respectively, with a total grant-date fair value of $309.4 thousand and $345.3 thousand and a weighted average grant-date fair value of $3.96 and $4.02 per option, respectively. During the three and six months ended July 27, 2014, we granted 0.5 million and 3.7 million of RSUs and PSUs combined, with a total grant-date fair value of $8.4 million and $64.1 million and a weighted average grant-date fair value of $17.68 and $17.20 per share, respectively. The PSUs were granted during the first quarter of fiscal year 2015 to our CEO and senior management as approved by our Compensation Committee.

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

During the three and six months ended July 28, 2013, we granted 0.5 million and 3.3 million stock options, respectively, with an estimated total grant-date fair value of $1.4 million and $10.1 million and a weighted average grant-date fair value of $2.96 and $3.09 per option, respectively. During the three and six months ended July 28, 2013, we granted 0.7 million and 5.6 million RSUs with an estimated total grant-date fair value of $8.9 million and $66.3 million and a weighted average grant-date fair value of $13.49 and $11.93 per share, respectively.

Of the total grant-date fair value, we estimated that the stock-based compensation expense related to the equity awards that were not expected to vest was $1.6 million and $11.5 million for the three and six months ended July 27, 2014, respectively, and $1.8 million and $13.7 million for the three and six months ended July 28, 2013, respectively. As of July 27, 2014 and January 26, 2014, the aggregate amount of unearned stock-based compensation expense related to our equity awards was $235.6 million and $241.3 million, respectively, adjusted for estimated forfeitures. As of July 27, 2014 and January 26, 2014, we expected to recognize the unearned stock-based compensation expense related to stock options over an estimated weighted average amortization period of 2.2 years and 2.5 years, respectively. As of July 27, 2014 and January 26, 2014, we expected to recognize the unearned stock-based compensation expense related to RSUs and PSUs over an estimated weighted average amortization period of 2.6 years and 2.7 years, respectively.

The fair value of stock options granted under our equity incentive plan 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 27, 2014	July 28, 2013	July 27, 2014	July 28, 2013
Stock Options	(Using a binomial model)			
Expected life (in years)	2.5	2.4 - 3.4	2.5 - 3.2	2.4 - 3.4
Risk-free interest rate	2.5%	1.8% - 2.7%	2.5% - 2.8%	1.8% - 2.7%
Volatility	31%	30% - 33%	31%	30% - 37%
Dividend yield	1.8%	2.1% - 2.2%	1.8% - 1.9%	2.1% - 2.4%

	Three Months Ended		Six Months Ended	
	July 27, 2014	July 28, 2013	July 27, 2014	July 28, 2013
Employee Stock Purchase Plan	(Using a Black-Scholes model)			
Expected life (in years)	—	—	0.5 - 2.0	0.5 - 2.0
Risk-free interest rate	—	—	0.1% - 0.3%	0.1% - 0.3%
Volatility	—%	—%	31%	37%
Dividend yield	—%	—%	1.9%	2.4%

Equity Award Activity

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

Stock Options	Options Outstanding (In thousands)	Weighted Average Exercise Price (Per share)
Balances, January 26, 2014	32,504	$14.22
Granted	86	$18.66
Exercised	(6,291)	$12.89
Cancelled	(942)	$18.89
Balances, July 27, 2014	25,357	$14.39

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

RSUs and PSUs	RSUs and PSUs Outstanding (In thousands)	Weighted Average Grant-Date Fair Value (Per share)
Balances, January 26, 2014	18,852	$13.82
Granted (1)	3,729	$17.20
Vested	(3,319)	$13.33
Cancelled	(793)	$13.98
Balances, July 27, 2014	18,469	$14.58

(1) Includes the total number of PSUs issuable if the maximum corporate financial performance target level for fiscal year 2015 is achieved. Depending on the actual level of achievement of the corporate performance goal at the end of fiscal year 2015, the range of PSUs issued could range from 1.4 million to 2.5 million shares.

Note 3 – Net Income Per Share

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

	Three Months Ended		Six Months Ended	
	July 27, 2014	July 28, 2013	July 27, 2014	July 28, 2013
	(In thousands, except per share data)			
Numerator:				
Net income	$127,976	$96,448	$264,492	$174,339
Denominator:				
Denominator for basic net income per share, weighted average shares	558,223	585,345	558,657	601,109
Effect of dilutive securities:				
Equity awards outstanding	12,349	6,661	11,942	4,942
Denominator for diluted net income per share, weighted average shares	570,572	592,006	570,599	606,051
Net income per share:				
Basic net income per share	$0.23	$0.16	$0.47	$0.29
Diluted net income per share	$0.22	$0.16	$0.46	$0.29
Potentially dilutive securities excluded from diluted net income per share because their effect would have been anti-dilutive	3,987	17,749	7,928	27,039

The denominator for diluted net income per share for the three and six months ended July 27, 2014 did not include any effect from the 1.00% Convertible Senior Notes due 2018, or the Notes. The calculation of the dilution impact is based on the treasury stock method in accordance with Accounting Standards Codification, or ASC 260, Earnings per Share. Commencing after the fiscal quarter ended on April 27, 2014, the Notes will not impact the denominator for diluted net income per share unless the average price of our common stock, as calculated under the terms of the Notes, exceeds the conversion price of $20.16 per share. Likewise, the denominator for diluted net income per share will not include any effect from the warrants that were issued simultaneously with the Notes unless the average price of our common stock, as calculated under the terms of the warrants, exceeds $27.14 per share.

The denominator for diluted net income per share for the three and six months ended July 27, 2014 also did not include any effect from the note hedges that were issued simultaneously with the Notes. In future periods, the denominator for diluted net income per share will exclude any effect of the note hedges, unless in the event an actual conversion of any or all of the Notes occurs, the shares that would be delivered to us under the note hedges are designed to neutralize the dilutive effect of the shares that we would issue under the Notes. Please refer to Note 11 of these Notes to Condensed Consolidated Financial Statements for additional discussion regarding the Notes.

Note 4 – Income Taxes

We recognized income tax expense of $26.6 million and $53.4 million for the three and six months ended July 27, 2014, respectively, and $15.4 million and $25.5 million for the three and six months ended July 28, 2013, respectively. Income tax expense as a percentage of income before taxes, or our effective tax rate, was 17.2% and 16.8% for the three and six months ended July 27, 2014, respectively, and 13.8% and 12.8% for the three and six months ended July 28, 2013, respectively.

The increase in our effective tax rate in fiscal year 2015 as compared to the same period in the prior fiscal year was primarily related to the expiration of the U.S. federal research tax credit on December 31, 2013 which resulted in no tax benefit in the six months ended July 27, 2014.

Our effective tax rate on income before tax for the first six months of fiscal year 2015 of 16.8% was lower than the United States federal statutory rate of 35% due primarily to income earned in jurisdictions where the tax rate is lower than the United States federal statutory tax rate. Further, our effective tax rate for the first six months of fiscal year 2015 of 16.8% differs from our annual projected effective tax rate as of the first six months of fiscal year 2015 of 19.1% due to favorable discrete events that occurred in the first six months of fiscal year 2015 primarily attributable to the tax benefits recognized upon the expiration of statutes of limitations in certain non-U.S. jurisdictions.
Our effective tax rate on income before tax for the first six months of fiscal year 2014 of 12.8% was lower than the United States federal statutory rate of 35% due primarily to income earned in jurisdictions where the tax rate is lower than the United States federal statutory tax and the benefit of the U.S. federal research tax credit.

For the six months ended July 27, 2014, there have been no material changes to our tax years that remain subject to examination by major tax jurisdictions. Additionally, there have been no other material changes to our unrecognized tax benefits and any related interest or penalties from our fiscal year ended January 26, 2014, other than the recognition of tax benefits upon the expiration of statute of limitation in certain non-U.S. jurisdictions in the six months ended July 27, 2014.

While we believe that we have adequately provided for all uncertain tax positions, or tax positions where it is believed not more-likely-than-not that the position will be sustained upon examination, 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 27, 2014, 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)
(Unaudited)

Note 5 - Marketable Securities

All of our cash equivalents and marketable securities are classified as "available-for-sale" securities. These securities are reported at fair value, with the related unrealized gains and losses included in accumulated other comprehensive income, a component of stockholders' equity, net of tax, and net realized gains and losses recorded in other income, net, on the Condensed Consolidated Statement of Income.

We performed an impairment review of our investment portfolio as of July 27, 2014. Based on our quarterly impairment review and having considered the guidance in the relevant accounting literature, we concluded that our investments were appropriately valued and that no other than temporary impairment charges were necessary on our portfolio as of July 27, 2014.

The following is a summary of cash equivalents and marketable securities at July 27, 2014 and January 26, 2014:

	July 27, 2014			
	Amortized Cost	Unrealized Gain	Unrealized Loss	Estimated Fair Value
	(In thousands)			
Corporate debt securities	$2,042,721	$2,139	$(1,430)	$2,043,430
Debt securities of United States government agencies	700,025	352	(216)	700,161
Debt securities issued by United States Treasury	586,484	896	(69)	587,311
Asset-backed securities	411,669	169	(310)	411,528
Mortgage-backed securities issued by United States government-sponsored enterprises	258,483	4,279	(1,340)	261,422
Money market funds	119,491	—	—	119,491
Total	$4,118,873	$7,835	$(3,365)	$4,123,343
Classified as:				
Cash equivalents				$252,381
Marketable securities				3,870,962
Total				$4,123,343

	January 26, 2014			
	Amortized Cost	Unrealized Gain	Unrealized Loss	Estimated Fair Value
	(In thousands)			
Corporate debt securities	$1,827,788	$1,857	$(1,065)	$1,828,580
Debt securities of United States government agencies	1,012,740	848	(261)	1,013,327
Debt securities issued by United States Treasury	495,889	621	(57)	496,453
Money market funds	307,865	—	—	307,865
Asset-backed securities	258,017	15	(315)	257,717
Mortgage-backed securities issued by United States government-sponsored enterprises	185,594	3,837	(725)	188,706
Total	$4,087,893	$7,178	$(2,423)	$4,092,648
Classified as:				
Cash equivalents				$572,425

Marketable securities	3,520,223
Total	$4,092,648

The following table provides the breakdown of the investments with unrealized losses at July 27, 2014:

	Less than 12 months		12 months or greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
	(In thousands)					
Corporate debt securities	$664,945	$(90)	$1,378,485	$(1,340)	$2,043,430	$(1,430)
Debt securities of United States government agencies	304,481	(3)	395,680	(213)	700,161	(216)
Debt securities issued by United States Treasury	45,045	(28)	542,266	(41)	587,311	(69)
Asset-backed securities	162,899	(14)	248,629	(296)	411,528	(310)
Mortgage-backed securities issued by United States government-sponsored enterprises	—	—	261,422	(1,340)	261,422	(1,340)
Total	$1,177,370	$(135)	$2,826,482	$(3,230)	$4,003,852	$(3,365)

The gross unrealized losses related to fixed income securities were due to changes in interest rates. We have determined that the gross unrealized losses on investment securities at July 27, 2014 are temporary in nature. Currently, we have the intent and ability to hold our investments with impairment indicators until maturity.

The amortized cost and estimated fair value of cash equivalents and marketable securities, which are primarily debt instruments, are classified as available-for-sale at July 27, 2014 and January 26, 2014 and are shown below by contractual maturity.

	July 27, 2014		January 26, 2014	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
	(In thousands)			
Less than 1 year	$1,296,254	$1,296,861	$1,883,132	$1,883,753
Due in 1 - 5 years	2,665,096	2,667,222	2,114,289	2,117,387
Mortgage-backed securities issued by government-sponsored enterprises not due at a single maturity date	157,523	159,260	90,472	91,508
Total	$4,118,873	$4,123,343	$4,087,893	$4,092,648

Net realized gains for the three and six months ended July 27, 2014 were not significant. Net realized gains for the three and six months ended July 28, 2013 were $1.6 million and $1.7 million, respectively.

NVIDIA CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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Note 6 – Fair Value of Financial Assets and Liabilities

Financial assets measured at fair value:

We measure our cash equivalents and marketable securities at fair value. The fair values of our financial assets and liabilities are determined using quoted market prices of identical assets or quoted market prices of similar assets from active markets. Our Level 1 assets consist of our money market funds. We classify securities within Level 1 assets when the fair value is obtained from real time quotes for transactions in active exchange markets involving identical assets. Our available-for-sale securities are classified as having Level 2 inputs. Our Level 2 assets are valued utilizing a market approach where the market prices of similar assets are provided by a variety of independent industry standard data providers to our investment custodian. There were no significant transfers between Levels 1 and 2 assets for the three and six months ended July 27, 2014.

Financial assets measured at fair value are summarized below:

		Fair Value Measurement as of July 27, 2014 Using	
	July 27, 2014	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
	(In thousands)		
Corporate debt securities (1)	$2,043,430	$—	$2,043,430
Debt securities issued by United States government agencies (2)	700,161	—	700,161
Debt securities issued by United States Treasury (3)	587,311	—	587,311
Asset-backed securities (3)	411,528	—	411,528
Mortgage-backed securities issued by government-sponsored enterprises (3)	261,422	—	261,422
Money market funds (4)	119,491	119,491	—
Total cash equivalents and marketable securities	$4,123,343	$119,491	$4,003,852

(1) Includes $96.2 million in cash equivalents and $1.95 billion in marketable securities on the Condensed Consolidated Balance Sheet.
(2) Includes $36.7 million in cash equivalents and $663.5 million in marketable securities on the Condensed Consolidated Balance Sheet.
(3) Included in marketable securities on the Condensed Consolidated Balance Sheet.
(4) Included in cash equivalents on the Condensed Consolidated Balance Sheet.

Financial liabilities measured at fair value:

We issued $1.5 billion Notes in December 2013. The Notes are carried at their original issuance value, net of unamortized debt discount, and are not marked to market each period. The estimated fair value of the Notes was $1.63 billion and $1.53 billion as of July 27, 2014 and January 26, 2014, respectively. The estimated fair value of the Notes was determined on the basis of market prices observable for similar instruments and is considered Level 2 in the fair value hierarchy. Please refer to Note 11 of these Notes to Condensed Consolidated Financial Statements for discussion regarding the Notes.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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Note 7 - 3dfx

During fiscal year 2002, we completed the purchase of certain assets from 3dfx Interactive, Inc., or 3dfx, for an aggregate purchase price of $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 $30.6 million to the 3dfx estate. Under the settlement, $5.6 million related to various administrative expenses and Trustee fees, and $25.0 million related to the satisfaction of debts and liabilities owed to the general unsecured creditors of 3dfx. Accordingly, during the three month period ended October 30, 2005, we recorded $5.6 million as a charge to settlement costs and $25.0 million as additional purchase price for 3dfx. The Trustee advised that he intended to object to the settlement.

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

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

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

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Note 8 - Intangible Assets

The components of our amortizable intangible assets are as follows:

	July 27, 2014			January 26, 2014		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
	(In thousands)					
Acquisition-related intangible assets	$189,239	$(124,083)	$65,156	$189,239	$(114,104)	$75,135
Patents and licensed technology	449,204	(253,747)	195,457	446,196	(225,319)	220,877
Total intangible assets	$638,443	$(377,830)	$260,613	$635,435	$(339,423)	$296,012

Amortization expense associated with intangible assets for the three and six months ended July 27, 2014 was $19.3 million and $38.4 million, respectively. Amortization expense associated with intangible assets for the three and six months ended July 28, 2013 was $18.6 million and $36.0 million, respectively. Amortization expense increased compared to the prior year primarily due to the addition of licensed technology, the purchase of certain assets of a business, and the addition of acquired in-process research and development technology that was determined to be complete. Future amortization expense related to the net carrying amount of intangible assets at July 27, 2014 is estimated to be $40.0 million for the remainder of fiscal year 2015, $71.9 million in fiscal year 2016, $63.7 million in fiscal year 2017, $49.0 million in fiscal year 2018, $20.4 million in fiscal year 2019 and a total of $15.6 million in fiscal year 2020 and beyond.

Note 9 - Balance Sheet Components

Certain balance sheet components are as follows:

	July 27, 2014	January 26, 2014
Inventories:	(In thousands)	
Raw materials	$126,191	$126,896
Work in-process	85,895	94,844
Finished goods	175,348	166,025
Total inventories	$387,434	$387,765

At July 27, 2014, we had outstanding inventory purchase obligations totaling $486.3 million.

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	July 27, 2014	January 26, 2014
Accrued Liabilities and Other:	(In thousands)	
Deferred revenue, short-term	$265,704	$265,616
Accrued customer programs (1)	131,973	157,840
Accrued payroll and related expenses	112,024	109,721
Accrued legal settlement (2)	30,600	30,600
Professional service fees	12,218	13,572
Customer advances	11,329	9,297
Office lease related liabilities	8,549	3,139
Warranty accrual (3)	8,202	7,571
Taxes payable, short-term	5,810	2,378
Coupon interest on Notes	2,542	2,500
Other	18,151	18,871
Total accrued liabilities and other	$607,102	$621,105

(1) Please refer to Note 1 of the Notes to the Consolidated Financial Statements in our Annual Report on Form 10-K for the fiscal year ended January 26, 2014, 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 12 of these Notes to Condensed Consolidated Financial Statements for discussion regarding the 3dfx litigation.
(3) Please refer to Note 10 of these Notes to Condensed Consolidated Financial Statements for discussion regarding the warranty accrual.

	July 27, 2014	January 26, 2014
Other Long-Term Liabilities:	(In thousands)	
Deferred income tax liability	$192,702	$157,953
Income taxes payable, long-term	119,661	119,977
Deferred revenue, long-term (1)	40,063	172,199
Asset retirement obligation	7,386	11,056
Other long-term liabilities	14,301	13,940
Total other long-term liabilities	$374,113	$475,125

(1) Consists primarily of annual consideration received in advance of our performance obligation under our patent cross licensing agreement with Intel Corporation entered into in January 2011. The decrease in deferred revenue, long-term, is a result of revenue recognized during the six months ended July 27, 2014.

Note 10 - Guarantees

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

Accrual for Product Warranty Liabilities

We record a reduction to revenue for estimated product returns at the time revenue is recognized primarily based on historical return rates. Cost of revenue includes the estimated cost of product warranties. Under limited circumstances, we may offer an extended limited warranty to customers for certain products. Additionally, we accrue for known warranty and indemnification issues if a loss is probable and can be reasonably estimated. The estimated product warranty liabilities for the three and six months ended July 27, 2014 and July 28, 2013 were as follows:

	Three Months Ended		Six Months Ended	
	July 27, 2014	July 28, 2013	July 27, 2014	July 28, 2013
	(In thousands)			
Balance at beginning of period	$8,250	$14,833	$7,571	$14,874
Additions	1,155	3,482	3,189	4,900
Deductions	(1,203)	(841)	(2,558)	(2,300)
Balance at end of period	$8,202	$17,474	$8,202	$17,474

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

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Note 11 - Long-Term Debt

1.00 % Convertible Senior Notes Due 2018

On December 2, 2013, we issued $1.5 billion of 1.00% convertible senior notes due 2018, or the Notes. The Notes are unsecured, unsubordinated obligations of the Company, which pay interest in cash semi-annually at a rate of 1.00% per annum. The Notes will mature on December 1, 2018 unless earlier repurchased or converted in accordance with their terms prior to such date. The Notes may be converted, under the conditions specified below, based on an initial conversion rate of 49.60 shares of common stock per $1,000 principal amount of Notes (equivalent to an initial conversion price of $20.16 per share of common stock), subject to adjustment as described in the indenture governing the Notes.

Holders may convert their notes at their option at any time prior to August 1, 2018 only under the following circumstances: (1) during any fiscal quarter commencing after the fiscal quarter ended on April 27, 2014 (and only during such fiscal quarter), if the last reported sale price of the common stock for at least 20 trading days (whether or not consecutive) during a period of 30 consecutive trading days ending on the last trading day of the immediately preceding fiscal quarter is greater than or equal to 130% of the conversion price on each applicable trading day; (2) during the five business day period after any five consecutive trading day period (the measurement period) in which the trading price per $1,000 principal amount of notes for each trading day of the measurement period was less than 98% of the product of the last reported sale price of our common stock and the conversion rate on each such trading day; or (3) upon the occurrence of specified corporate events. On or after August 1, 2018 to the close of business on the second scheduled trading day immediately preceding the maturity date, holders may convert all or any portion of their notes regardless of the foregoing conditions. Upon conversion, we will pay cash up to the aggregate principal amount of the notes to be converted and pay or deliver, as the case may be, cash, shares of our common stock or a combination of cash and shares of our common stock, at our election, in respect of the remainder, if any, of our conversion obligation in excess of the aggregate principal amount of the notes being converted.

As of July 27, 2014, none of the conditions allowing holders of the Notes to convert had been met. The determination of whether or not the Notes are convertible must be performed quarterly. If the Notes become convertible at the option of the holder, the difference between the principal amount and the carrying value of the Notes would be reflected as convertible debt in the mezzanine equity section on our Condensed Consolidated Balance Sheets.

In accordance with ASC 470-20 Debt with Conversion and Other Options, all cash-settled convertible debt should be separated into debt and equity components at issuance and be assigned a fair value. The value assigned to the debt component is the estimated fair value, as of the issuance date, of a similar debt without the conversion feature. The difference between the net cash proceeds and this estimated fair value, represents the value assigned to the equity component and is recorded as a debt discount. The debt discount is amortized using the effective interest method from the origination date through its stated contractual maturity date.

The initial debt component of the Notes was valued at $1,351.8 million based on the contractual cash flows discounted at an appropriate market rate for a non-convertible debt at the date of issuance, which was determined to be 3.15%. The carrying value of the permanent equity component reported in additional paid-in-capital was valued at $125.7 million and recorded as a debt discount. This amount, together with the $22.5 million purchaser's discount to the par value of the Notes represents the total unamortized debt discount of $148.2 million we recorded at the time of issuance of the Notes. The aggregate debt discount is amortized as interest expense over the contractual term of the Notes using the effective interest method using an interest rate of 3.15%.

The following table presents the carrying amounts of the liability and equity components:

	July 27, 2014	January 26, 2014
	(In thousands)	
Amount of the equity component	$125,725	$125,725

1.00% convertible senior notes due 2018	$1,500,000	$1,500,000
Unamortized debt discount (1)	(129,751)	(143,625)
Net carrying amount	$1,370,249	$1,356,375

(1) As of July 27, 2014, the unamortized debt discount will be amortized over a remaining period of 4.4 years.

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The following table presents the interest expense for the contractual interest and the accretion of debt discount and issuance costs:

	Three Months Ended		Six Months Ended	
	July 27, 2014	July 28, 2013	July 27, 2014	July 28, 2013
	(In thousands)			
Contractual coupon interest expense	$3,750	$—	$7,500	$—
Amortization of debt discount	6,973	—	13,874	—
Amortization of debt issuance costs	49	—	97	—
Total interest expense related to Notes	$10,772	$—	$21,471	$—

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. In October 2002, 3dfx filed for bankruptcy.

Following the bankruptcy, in March 2003, the Trustee appointed by the Bankruptcy Court to represent 3dfx's bankruptcy estate served a complaint on NVIDIA asserting claims for, among other things, successor liability and fraudulent transfer and seeking additional payments from us. The Trustee's fraudulent transfer theory alleged that NVIDIA had failed to pay reasonably equivalent value for 3dfx's assets, and sought recovery of the difference between the $70.0 million paid and the alleged fair value, which difference the Trustee estimated to exceed $50.0 million. The Trustee's successor liability theory alleged NVIDIA was effectively 3dfx's legal successor and therefore was responsible for all of 3dfx's unpaid liabilities.

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 $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.

In March 2007, a trial was held regarding certain valuation issues in the Trustee's constructive fraudulent transfer claims against NVIDIA. 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.

On December 20, 2010, the District Court issued an Order affirming the Bankruptcy Court's entry of summary judgment in NVIDIA's favor, and on January 19, 2011, the Trustee filed a Notice of Appeal to the United States Court of Appeals for the Ninth Circuit. The hearing on the appeal is currently scheduled for October 8, 2014.

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

Securities Cases

In September 2008, three putative securities class actions were filed in the United States District Court for the Northern District of California arising out of our announcements on July 2, 2008, that we would take a charge against cost of revenue to cover anticipated costs and expenses arising from a weak die/packaging material set in certain versions of our previous generation MCP and GPU products and that we were revising financial guidance for our second quarter of fiscal year 2009. The actions purport to be brought on behalf of purchasers of NVIDIA stock and assert claims for violations of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934.

On January 22, 2010, Plaintiffs filed a Consolidated Amended Class Action Complaint, asserting claims for violations of Section 10(b), Rule 10b-5, and Section 20(a) of the Securities Exchange Act and seeking unspecified compensatory damages. We moved to dismiss the consolidated complaint and on October 19, 2010, Judge Seeborg granted our motion with leave to amend. On December 2, 2010, Plaintiffs filed a Second Consolidated Amended Complaint. We again moved to dismiss and on October 12, 2011, Judge Seeborg again granted our motion to dismiss, this time denying Plaintiffs leave to amend. On November 8, 2011, Plaintiffs filed a Notice of Appeal to the Ninth Circuit. Oral argument was held on January 14, 2014 and the appeal is currently under submission.

Accounting for Loss Contingencies

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

Note 13 - Stockholders' Equity

Stock Repurchase Program

Beginning August 2004, our Board of Directors authorized us, subject to certain specifications, to repurchase shares of our common stock. Most recently, in November 2013, the Board extended the previously authorized repurchase program through January 2016 and authorized an additional $1.00 billion for an aggregate of $3.70 billion under the repurchase program. Through July 27, 2014, we have repurchased an aggregate of 188.7 million shares under our stock repurchase program for a total cost of $2.95 billion. As of July 27, 2014, we are authorized, subject to certain specifications, to repurchase shares of our common stock up to $748.4 million through January 2016.

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

In November 2013, we announced the intention to return $1.00 billion to shareholders in fiscal year 2015 in the form of share repurchases and cash dividends. During February 2014, we executed a $500.0 million accelerated share repurchase, or ASR, agreement with an investment bank that was completed in July 2014. Under the ASR, we have repurchased 27.4 million shares in aggregate at an average price of $18.23 per share, of which 20.6 million shares were delivered in the first quarter of fiscal year 2015 and 6.8 million shares were delivered in the second quarter of fiscal year 2015. The shares delivered resulted in a reduction, on the delivery date, of the outstanding shares used to calculate the weighted-average common shares outstanding for basic and diluted earnings per share. As of July 27, 2014, all shares delivered from the ASR have been placed into treasury stock.

Dividends

During the three and six months ended July 27, 2014, we paid $47.4 million and $94.2 million, respectively, in dividends to our common stockholders. These dividends were equivalent to $0.085 per share on a quarterly basis, or $0.34 per share on an annual basis.

Convertible Preferred Stock

There are no shares of preferred stock outstanding.

Common Stock

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

Note 14 - Segment Information

Our Chief Executive Officer, who is considered to be our chief operating decision maker, or CODM, reviews financial information presented on an operating segment basis for purposes of making operating decisions and assessing financial performance. Our operating segments are equivalent to our reportable segments. We report our business in two primary reporting segments - the GPU business and the Tegra Processor business.

Our GPU business leverages our GPU technology across multiple end markets. It comprises four primary product lines: GeForce for consumer desktop and notebook PCs; Quadro for professional workstations; Tesla for high-performance computing; and NVIDIA GRID to provide the power of NVIDIA graphics through the cloud. It also includes other related products, licenses and revenue supporting the GPU business, such as memory products.

Our Tegra Processor business comprises primarily product lines based on our Tegra SOC and modem processor technologies, including Tegra for tablets, smartphones and gaming devices; Icera baseband processors and RF transceivers; automotive computers, including infotainment and navigation systems; and gaming devices, such as SHIELD. It also includes embedded products and license and other revenue associated with game consoles.

During the fourth quarter of fiscal year 2014, our CODM completed a refinement of the methodology utilized to assign expenses to the GPU and Tegra Processor businesses to align to the Company’s product architecture and roadmap. With the announcement of our Tegra K1 processor, we now have a single unifying architecture for our GPU and Tegra Processors. This architecture unification prompted a methodology change that leverages our visual computing expertise by charging the operating expenses of certain core engineering functions to the GPU business, while charging the Tegra Processor business for the incremental cost of the teams working directly for that business. In instances where the operating expenses of certain functions benefit both reporting segments, our CODM assigns 100% of those expenses to the reporting segment that benefits the most. The revenue and cost of revenue of the reporting segments was not affected, and comparative periods presented below reflect the impact of this change.

The “All Other” category presented below represents the revenue and expenses that our CODM does not assign to either the GPU business or the Tegra Processor business for purposes of making operating decisions or assessing financial performance. The revenue includes patent licensing revenue and the expenses include corporate infrastructure and support costs, stock-based compensation costs, amortization of acquisition-related intangible assets, other acquisition-related costs, and other non-recurring charges and benefits that our CODM deems to be enterprise in nature.

Our CODM does not review any information regarding total assets on a reporting segment basis. We do not have intersegment revenue. The accounting policies for segment reporting are the same as for the Company as a whole.

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	GPU	Tegra Processor	All Other	Consolidated
	(In thousands)			
Three Months Ended July 27, 2014				
Revenue	$877,980	$158,844	$66,000	$1,102,824
Depreciation and amortization expense	$29,493	$14,562	$11,552	$55,607
Operating income (loss)	$240,908	$(54,542)	$(23,187)	$163,179
Three Months Ended July 28, 2013				
Revenue	$858,613	$52,625	$66,000	$977,238
Depreciation and amortization expense	$36,001	$15,431	$10,408	$61,840
Operating income (loss)	$207,914	$(83,560)	$(18,820)	$105,534
Six Months Ended July 27, 2014				
Revenue	$1,775,343	$298,268	$132,000	$2,205,611
Depreciation and amortization expense	$59,017	$28,730	$22,943	$110,690
Operating income (loss)	$476,104	$(115,981)	$(45,585)	$314,538
Six Months Ended July 28, 2013				
Revenue	$1,644,225	$155,752	$132,000	$1,931,977
Depreciation and amortization expense	$71,919	$28,953	$20,712	$121,584
Operating income (loss)	$366,440	$(138,550)	$(39,575)	$188,315

	Three Months Ended		Six Months Ended	
	July 27, 2014	July 28, 2013	July 27, 2014	July 28, 2013
	(In thousands)			
Reconciling items included in "All Other" category :				
Revenue not allocated to reporting segments	$66,000	$66,000	$132,000	$132,000
Unallocated corporate operating expenses	(41,599)	(41,171)	(85,035)	(85,668)
Stock-based compensation	(38,415)	(32,395)	(73,936)	(65,792)
Acquisition-related costs	(9,173)	(8,964)	(18,614)	(17,825)
Other non-recurring expenses	—	(2,290)	—	(2,290)
Total	$(23,187)	$(18,820)	$(45,585)	$(39,575)

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 27, 2014	July 28, 2013	July 27, 2014	July 28, 2013
	(In thousands)			
Revenue:				
Taiwan	$330,917	$319,004	$703,776	$608,885
China	251,768	184,086	475,230	359,130
United States	206,128	163,796	379,063	349,774
Other Asia Pacific	150,799	165,117	305,649	332,374
Other Americas	83,055	76,531	174,818	141,538
Europe	80,157	68,704	167,075	140,276
Total revenue	$1,102,824	$977,238	$2,205,611	$1,931,977

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

	Three Months Ended				Six Months Ended			
	July 27, 2014		July 28, 2013		July 27, 2014		July 28, 2013	
Revenue:								
Customer A	11	%	11	%	10	%	11	%
Customer B	10	%	12	%	9	%	11	%

Revenue from Customer A was attributable primarily to the GPU business for the three and six months ended July 27, 2014 and to both the GPU and Tegra Processor businesses for the three and six months ended July 28, 2013. Revenue from Customer B was attributable to the GPU business for all comparative periods presented.

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

	July 27, 2014		January 26, 2014	
Accounts Receivable:				
Customer B	21	%	23	%
Customer C	10	%	9	%

Note 15 - Subsequent Event

In August 2014, as part of our stock repurchase program, we entered into an accelerated share repurchase agreement, or ASR, with an investment bank, under which we paid $310.0 million to purchase shares of our common stock and received 10.9 million shares. Upon final settlement of the ASR, we may either (1) receive additional shares of our common stock, or (2) be required to deliver shares of our common stock or elect to make a cash payment to the investment bank, based on the terms and conditions under the ASR. The shares we receive result in a reduction, on the delivery date, of the outstanding shares used to calculate the weighted-average common shares outstanding for basic and diluted earnings per share.

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

Forward-Looking Statements

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

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

NVIDIA, the NVIDIA logo, GEFORCE, GTX, ICERA, Jetson, Kepler, Maxwell, NVIDIA, NVIDIA GRID, NVLINK, Quadro, SHIELD, Tegra, and Tesla are trademarks and/or registered trademarks of NVIDIA Corporation in the United States and other countries. Other company and product names may be trademarks of the respective companies with which they are associated.

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with “Item 6. Selected Financial Data” of our Annual Report on Form 10-K for the fiscal year ended January 26, 2014 and “Item 1A. Risk Factors” of this Quarterly Report on Form 10-Q and our Condensed Consolidated Financial Statements and related Notes thereto, as well as other cautionary statements and risks described elsewhere in this Quarterly Report on Form 10-Q, before deciding to purchase or sell shares of our common stock.

Overview

Our Company

NVIDIA is a visual computing company. In a world increasingly filled with visual displays, our graphics technologies let our customers interact with the world of digital ideas, information and entertainment with an efficiency that no other communication medium can match.

Our strategy is to be the world leader in visual computing. We target applications in each of the major computing platforms - PC, cloud, mobile - where we can create value. Our target markets are gaming, design and visualization, high performance computing, or HPC, and data center, and automotive and smart devices. We deploy business models we believe are best suited for each application, whether IP, chips, systems, or NVIDIA-branded devices and services.

Our businesses are based on two technologies with a consistent underlying graphics architecture: the GPU and the Tegra processor.

GPUs, each with billions of transistors, are the engines of visual computing and among the world's most complex processors. We have GPU product brands aimed at specific users and applications: GeForce for gamers; Quadro for designers; Tesla for researchers; and GRID for cloud-based graphics.

- In gaming, GPUs enhance the gaming experience on PCs by improving the visual quality of graphics, increasing the frame rate for smoother gameplay and improving realism by replicating the behavior of light and physical objects.

- For designers, GPUs improve productivity and introduce new capabilities. For example, an architect designing a new building in a CAD package can interact with the model in real time, the model can be more detailed, and photo realistic renderings can be generated for the client.
- Researchers can use GPUs to run their simulations faster while consuming less power, increasing the accuracy of weather forecasts, or pricing financial derivatives more quickly.
- GRID uses GPUs to deliver graphics performance remotely, from the cloud. Uses include gaming, professional applications provided as a service (SaaS) and improving Citrix and VMware installations.

The Tegra processor is a SOC integrating an entire computer on a single chip. Tegra processors incorporate GPUs and multi-core CPUs together with audio, video and input/output capabilities. They can also be integrated with baseband processors to add voice and data communication. Our Tegra SOC conserves power while delivering state-of-the-art graphics and multimedia processing.

Tegra runs devices like smartphones, tablets and PCs; it can also be embedded into smart devices, such as televisions, monitors, set-top boxes, gaming devices and cars. SHIELD, our Android gaming device based on Tegra, contains proprietary NVIDIA-developed software and system technologies and leverages our deep partnerships with game developers.

Headquartered in Santa Clara, California, we were incorporated in California in April 1993 and reincorporated in Delaware in April 1998.

Recent Developments, Future Objectives and Challenges

GPU Business

During the second quarter of fiscal year 2015, we extended our reach in data center accelerated computing, with the world’s fifteen most highly efficient supercomputers all utilizing our Tesla GPUs. We also surpassed forty million installations of our GeForce Experience client, which provides game-ready drivers, optimized play settings, and streaming and sharing of gameplay. We also invented the first GPU acceleration technology for Adobe Illustrator CC.

During the first quarter of fiscal year 2015, we released our new GeForce GTX 750 and GeForce GTX 800M series products which include our NVIDIA Maxwell-based products, and disclosed the first details of our Pascal GPU architecture, which will succeed NVIDIA Maxwell. Pascal is expected to feature 3D memory and NVLink interconnect technology. NVLink is planned to be incorporated in future POWER8 CPUs from IBM. We also announced that NVIDIA GRID™ technology will be available on the VMware Horizon DaaS Platform to deliver 3D graphics on virtualized desktops and applications delivered through the cloud. In addition, we joined IBM, Google, and others to launch the OpenPOWER Foundation, an initiative to bring IBM’s POWER CPU to mainstream servers.

Tegra Processor Business

During the second quarter of fiscal year 2015, our Tegra K1 processor was previewed in Google’s new Android L and Project Tango tablets and was one of the first processors to support Android TV. We expanded our SHIELD family of gaming devices with the launch of the SHIELD tablet, along with the SHIELD wireless controller. BMW shipped new models, including the i8 and i3, with infotainment systems powered by NVIDIA, and Volkswagen announced that in addition to the Golf, Tegra will be included in the Passat later this year in Europe.

During the first quarter of fiscal year 2015, we launched Jetson TK1, a development platform aimed at automotive, robotics, defense and embedded applications.

Capital Return to Shareholders

During the first half of fiscal year 2015, as part of our stock repurchase program, we entered into an accelerated share repurchase agreement, or ASR, with an investment bank that was completed in July 2014. Under the terms of this ASR, we paid $500.0 million to purchase shares of our common stock and received an aggregate of 27.4 million shares under this repurchase agreement of which 20.6 million shares were delivered in the first quarter and 6.8 million shares were delivered in the second quarter of fiscal year 2015. Please refer to Note 13 of the Notes to Condensed Consolidated Financial Statements for further disclosure regarding the ASR. Additionally, we paid $94.2 million in cash dividends during the first half of fiscal year 2015. As such, in the aggregate for the first half of fiscal year 2015, we returned a total of $594.2 million of our intended capital return of $1.00 billion to shareholders during fiscal year 2015. Subsequently, in August 2014, we entered into an additional ASR to purchase $310.0 million in shares of our common stock.

Financial Information by Business Segment and Geographic Data

Our Chief Executive Officer, who is considered to be our chief operating decision maker, or CODM, reviews financial information presented on an operating segment basis for purposes of making operating decisions and assessing financial performance. Our operating segments are equivalent to our reportable segments. We report our business in two primary reporting segments - the GPU business and the Tegra Processor business.

Our GPU business leverages our GPU technology across multiple end markets. It comprises four primary product lines: GeForce for consumer desktop and notebook PCs; Quadro for professional workstations; Tesla for high-performance computing; and NVIDIA GRID to provide the power of NVIDIA graphics through the cloud. It also includes other related products, licenses and revenue supporting the GPU business, such as memory products.

Our Tegra Processor business comprises primarily product lines based on our Tegra SOC and modem processor technologies, including Tegra for tablets, smartphones and gaming devices; Icera baseband processors and RF transceivers; automotive computers, including infotainment and navigation systems; and gaming devices, such as SHIELD. It also includes embedded products and license and other revenue associated with game consoles.

The “All Other” category presented below represents the revenue and expenses that our CODM does not assign to either the GPU business or the Tegra Processor business for purposes of making operating decisions or assessing financial performance. The revenue includes patent licensing revenue and the expenses include corporate infrastructure and support costs, stock-based compensation costs, amortization of acquisition-related intangible assets, other acquisition-related costs, and other non-recurring charges and benefits that our CODM deems to be enterprise in nature.

Our CODM does not review any information regarding total assets on a reporting segment basis. We do not have intersegment revenue. The accounting policies for segment reporting are the same as for the Company as a whole. Please refer to Note 14 of the Notes to Condensed Consolidated Financial Statements for further disclosure regarding segment information.

Results of Operations

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

	Three Months Ended				Six Months Ended			
	July 27, 2014		July 28, 2013		July 27, 2014		July 28, 2013	
Revenue	100.0	%	100.0	%	100.0	%	100.0	%
Cost of revenue	43.9		44.2		44.5		44.9	
Gross profit	56.1		55.8		55.5		55.1	
Operating expenses:								
Research and development	30.6		33.9		30.4		34.1	
Sales, general and administrative	10.8		11.1		10.8		11.2	
Total operating expenses	41.4		45.0		41.2		45.3	
Operating income	14.7		10.8		14.3		9.8	
Interest income	0.6		0.4		0.6		0.5	
Interest expense	1.0		0.1		1.0		0.1	
Other income (expense), net	(0.3	)	0.3		0.6		0.2	
Income before income tax expense	14.0		11.4		14.5		10.4	
Income tax expense	2.4		1.6		2.4		1.3	
Net income	11.6	%	9.8	%	12.1	%	9.1	%

Three and six months ended July 27, 2014 and July 28, 2013

Revenue

	Three Months Ended					Six Months Ended				
	July 27, 2014	July 28, 2013	$ Change	% Change		July 27, 2014	July 28, 2013	$ Change	% Change	
	(In thousands)					(In thousands)				
GPU	$878.0	$858.6	$19.4	2	%	$1,775.3	$1,644.2	$131.1	8	%
Tegra Processor	158.8	52.6	106.2	202	%	298.3	155.8	142.5	91	%
All Other	66.0	66.0	—	—	%	132.0	132.0	—	—	%
Total	$1,102.8	$977.2	$125.6	13	%	$2,205.6	$1,932.0	$273.6	14	%

Revenue for the second quarter of fiscal year 2015 increased 13% when compared the second quarter of fiscal year 2014. Revenue for the first half of fiscal year 2015 increased 14% when compared to the first half of fiscal year 2014. A discussion of our revenue results for each of our operating segments is as follows:

GPU Business. GPU business revenue increased by 2% in the second quarter of fiscal year 2015 compared to the second quarter of fiscal year 2014. This increase was due primarily to higher revenue from Tesla and GRID products for data center and high performance computing, driven by large project wins and VDI deployments. Quadro revenue also increased, with growth in Kepler-based products for mobile workstations. Revenue from GeForce desktop and notebook GPU products for gaming grew, reflecting a combination of continued strength in PC gaming and increased sales of our Maxwell-based GPU products. Revenue from GeForce GPU products for mainstream PC OEMs declined compared to last year.

GPU business revenue increased by 8% in the first half of fiscal year 2015 compared to the first half of fiscal year 2014. This increase was due primarily to increased revenue from sales of GeForce GPU products for gaming, reflecting a combination of continued strength in PC gaming and increased sales of our Maxwell-based GPU products. Revenue from GeForce GPU products for mainstream PC OEMs declined compared to last year. Tesla and GRID product revenues both increased, driven by large project wins and VDI deployments, and Quadro revenue increased due primarily to increased sales of our Kepler-based Quadro products.

Tegra Processor Business. Tegra Processor business revenue increased by 202% in the second quarter of fiscal year 2015 compared to the second quarter of fiscal year 2014, and by 91% in the first half of fiscal year 2015 compared to the first half of fiscal year 2014. These increases were driven by sales of Tegra products serving smartphones, tablets and automobile infotainment systems.

All Other. We recognized $66.0 million and $132.0 million in revenue from the patent cross licensing arrangement with Intel during the second quarter of fiscal years 2015 and 2014, and the first half of fiscal years 2015 and 2014, respectively.

Concentration of Revenue

Revenue from sales to customers outside of the United States and Other Americas accounted for 74% of total revenue for the second quarter and 75% of total revenue for the first half of fiscal year 2015. Revenue from sales to customers outside of the United States and Other Americas accounted for 75% of total revenue for both the second quarter and the first half of fiscal year 2014. Revenue by geographic region is allocated to individual countries based on the location to which the products are initially billed even if the revenue is attributable to end customers in a different location.

Revenue from significant customers, those representing 10% or more of total revenue, was 21% of our total revenue from two customers for the second quarter of fiscal year 2015 and 10% of total revenue from one customer for the first half of fiscal year 2015. Revenue from significant customers was 23% and 22% of our total revenue from two customers for the second quarter and first half of fiscal year 2014, respectively.

Gross Profit and Gross Margin

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

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

Our overall gross margin was 56.1% and 55.8% for the second quarter of fiscal years 2015 and 2014, respectively, and 55.5% and 55.1% for the first half of fiscal years 2015 and 2014, respectively.

Charges to cost of sales for inventory provisions totaled $12.7 million and $10.5 million for the second quarter of fiscal years 2015 and 2014, respectively, unfavorably impacting our gross margin by 1.1% for both periods. Sales of inventory that was previously written-off or written-down totaled $8.8 million and $13.8 million for the second quarter of fiscal years 2015 and 2014, respectively, favorably impacting our gross margin by 0.8% and 1.4%, respectively. As a result, the overall net effect on our gross margin from charges to cost of sales for inventory provisions and sales of items previously written-off or written-down was a 0.3% unfavorable impact for the second quarter of fiscal year 2015 and a 0.3% favorable impact for the second quarter of fiscal year 2014.

Charges to cost of sales for inventory provisions totaled $22.9 million and $24.1 million for the first half of fiscal years 2015 and 2014, respectively, unfavorably impacting our gross margin by 1.0% and 1.2%, respectively. Sales of inventory that was previously written-off or written-down totaled $13.8 million and $30.9 million for the first half of fiscal years 2015 and 2014, respectively, favorably impacting our gross margin by 0.6% and 1.6%, respectively. As a result, the overall net effect on our gross margin from charges to cost of sales for inventory provisions and sales of items previously written-off or written-down was a 0.4% unfavorable impact for the first half of fiscal year 2015 and a 0.4% favorable impact for the first half of fiscal year 2014.

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

GPU Business. The gross margin of our GPU business increased in the second quarter and first half of fiscal year 2015 compared to the second quarter and first half of fiscal year 2014. GPU margins increased primarily due to an increase in unit volume of our high-end GeForce GPU products, which contributed to a richer overall mix of product sales. Additionally, the volume increase of Kepler-based Quadro, Tesla and GRID products also contributed to a richer mix of GPU sales.

Tegra Processor Business. The gross margin of our Tegra Processor business decreased in the second quarter and first half of fiscal year 2015 compared to the second quarter and first half of fiscal year 2014. Tegra Processor margins decreased across most product categories and were also negatively impacted by the decline in license and royalty revenue associated with game consoles compared to the prior year.

Operating Expenses

	Three Months Ended				Six Months Ended			
	July 27, 2014	July 28, 2013	$ Change	% Change	July 27, 2014	July 28, 2013	$ Change	% Change
	(In millions)				($ in millions)			
Research and development expenses	$337.1	$331.7	$5.4	2 %	$671.4	$658.9	$12.5	2 %
Sales, general and administrative expenses	118.7	108.3	10.4	10 %	237.3	216.9	20.4	9 %
Total operating expenses	$455.8	$440.0	$15.8	4 %	$908.7	$875.8	$32.9	4 %
Research and development as a percentage of net revenue	31 %	34 %			30 %	34 %		
Sales, general and administrative as a percentage of net revenue	11 %	11 %			11 %	11 %		

Research and Development

Research and development expenses increased by 2% during the second quarter of fiscal year 2015 compared to the second quarter of fiscal year 2014. This increase was primarily due to a $10.4 million increase resulting from employee additions, employee compensation increases and related costs. That increase was partially offset by a $4.9 million decrease in engineering development expenses.

Research and development expenses increased by 2% during the first half of fiscal year 2015 compared to the first half of fiscal year 2014. This increase was primarily due to a $24.3 million increase resulting from employee additions, employee compensation increases and related costs due to the growth in hiring of engineering talent. That increase was partially offset by a $11.5 million decrease in engineering development expenses during the first half of fiscal year 2015.

Sales, General and Administrative

Sales, general and administrative expenses increased by 10% during the second quarter of fiscal year 2015 compared to the second quarter of fiscal year 2014. This increase was primarily due to a $12.7 million increase resulting from employee additions, employee compensation increases and related costs, offset by a $2.3 million decrease in outside professional fees.

Sales, general and administrative expenses increased by 9% during the first half of fiscal year 2015 compared to the first half of fiscal year 2014. This increase was primarily due to a $24.6 million increase resulting from employee additions, employee compensation increases and related costs. Facilities costs increased $7.4 million, as we expanded our offices internationally and leased an office building within the boundaries of our main Santa Clara campus. These increases were partially offset by a $9.7 million decrease in outside professional fees as well as more favorable international taxes and government subsidies.

Interest Income and Interest Expense

Interest income consists of interest earned on cash, cash equivalents and marketable securities. Interest expense is primarily comprised of coupon interest and debt discount amortization related to the convertible notes issued in December 2013.

Interest income increased by $3.0 million and $3.6 million during the second quarter and first half of fiscal years 2015 and 2014, respectively. The increase was primarily due to higher average cash balances as we invested the proceeds from the convertible notes we issued in December 2013 in interest bearing securities.

Interest expense increased by $10.7 million and $21.3 million during the second quarter and first half of fiscal years 2015 and 2014, respectively. The increase was primarily due to coupon interest and debt discount amortization related to the convertible notes we issued in December 2013.

Other Income (Expense), net

Other income (expense), net consists primarily of realized gains and losses from the sale of marketable securities, sales of investments in non-affiliated companies, and the impact of changes in foreign currency rates.

Other income decreased by $4.0 million during the second quarter of fiscal year 2015 compared to the same period in the prior fiscal year. This decrease was due to lower realized gains from the sale of marketable securities and lower foreign currency translation gains. Other income increased by $12.9 million during the first half of fiscal year 2015 compared to the same period in the prior fiscal year due to a gain from the sale of a non-affiliated investment, offset by lower foreign currency translation gains.

Other expense increased by $3.1 million and $3.4 million during the second quarter and first half of fiscal years 2015 and 2014, respectively. This increase was due to the recognition of a $2.5 million impairment loss in a non-affiliated investment during the second quarter of fiscal year 2015. Additionally, losses from realized foreign exchange translations were greater in the first half of fiscal year 2015.

Income Taxes

We recognized income tax expense of $26.6 million and $53.4 million for the second quarter and first half of fiscal year 2015, respectively, and $15.4 million and $25.5 million for the second quarter and first half of fiscal year 2014, respectively. Income tax expense as a percentage of income before taxes, or our effective tax rate, was 17.2% and 16.8% for the second quarter and first half of fiscal year 2015, respectively, and 13.8% and 12.8% for the second quarter and first half of fiscal year 2014, respectively.

The increase in our effective tax rate in fiscal year 2015 as compared to the same period in the prior fiscal year was primarily related to the expiration of the U.S. federal research tax credit on December 31, 2013 which resulted in no tax benefit in the first half of fiscal year 2015.

Our effective tax rate on income before tax for the first half of fiscal year 2015 of 16.8% was lower than the United States federal statutory rate of 35% due primarily to income earned in jurisdictions where the tax rate is lower than the United States federal statutory tax rate. Further, our effective tax rate for the first half of fiscal year 2015 of 16.8% differs from our annual projected effective tax rate as of the first half of fiscal year 2015 of 19.1% due to favorable discrete events that occurred in the first half of fiscal year 2015 primarily attributable to the tax benefit recognized upon the expiration of statutes of limitations in certain non-U.S. jurisdictions.

Our effective tax rate on income before tax for the first half of fiscal year 2014 of 12.8% was lower than the United States federal statutory rate of 35% due primarily to income earned in jurisdictions where the tax rate is lower than the United States federal statutory tax and the benefit of the U.S. federal research tax credit.

Please refer to Note 4 of the Notes to Condensed Consolidated Financial Statements for further information.

Liquidity and Capital Resources

	As of July 27, 2014	As of January 26, 2014
	(In millions)	
Cash and cash equivalents	$515.1	$1,151.6
Marketable securities	3,871.0	3,520.2
Cash, cash equivalents, and marketable securities	$4,386.1	$4,671.8

As of July 27, 2014, we had $4.39 billion in cash, cash equivalents and marketable securities, a decrease of $285.8 million from $4.67 billion as of January 26, 2014. This decrease was primarily due to the accelerated share repurchase transaction of $500.0 million that we entered into in February 2014 and $94.2 million in dividends, partially offset by cash generated from operations. Our portfolio of cash equivalents and marketable securities is managed on our behalf by several financial institutions that are required to follow our investment policy, which requires the purchase of high grade investment securities and the diversification of asset type and includes certain limits on our portfolio duration.

	Six Months Ended	
	July 27, 2014	July 28, 2013
	(In millions)	
Net cash provided by operating activities	$247.3	$272.1
Net cash provided by (used in) investing activities	$(393.3)	$481.0
Net cash used in financing activities	$(490.5)	$(894.6)

Operating activities

Operating activities consist primarily of net income for the fiscal period, offset by the impact of non-cash expenses such as depreciation and amortization expense, stock-based compensation expense, and interest expense from the amortization of debt discount, as well as changes in operating assets and liabilities, such as accounts receivable, inventories and accounts payable.

Cash provided by operating activities decreased in the first half of fiscal year 2015, compared to the first half of fiscal year 2014. The decrease was primarily due to higher accounts receivable as a result of higher revenue and lower payables outstanding, partially offset by higher net income resulting from improved gross profit and contained operating expenses.

Investing activities

Investing activities consist primarily of purchases, sales and maturities of marketable securities, acquisitions of businesses and purchases of property and equipment, including leasehold improvements for our facilities, and intangible assets.

Investing activities used cash of $393.3 million and provided cash of $481.0 million during the first half of fiscal years 2015 and 2014, respectively. The shift to net cash used in investing activities from cash provided by investing activities was primarily due to higher purchases of marketable securities and fewer sales of marketable securities as we reinvested the proceeds received from the convertible note offering that was completed during December 2013. Offsetting this was a $99.1 million decrease in capital expenditures for the first half of fiscal year 2015, when compared to the first half of fiscal year 2014. The primary reason for net cash provided in the first half of fiscal year 2014 was the result of liquidation of a portion of our investment portfolio to fund the accelerated share repurchase transaction of $750.0 million that was entered into on May 2013.

Financing activities

Financing activities consist primarily of borrowing activities, such as convertible debt issuances or capital leases, and equity-related activities such as proceeds from the issuance of common stock under employee stock plans, or stock repurchases and dividend payments.

Cash used in financing activities decreased in the first half of fiscal year 2015, compared to the first half of fiscal year 2014. This was primarily due an accelerated share repurchase transaction of $500.0 million entered into in February 2014 when compared to $750.0 million in May 2013, partially offset by an increase in proceeds from common stock issued under employee stock plans.

Liquidity

Our primary source of liquidity is cash generated by our operations. Our investment portfolio consists of cash and cash equivalents, commercial paper, mortgage-backed securities issued by government-sponsored enterprises, equity securities, money market funds, asset-backed securities and debt securities of corporations, municipalities and the United States government and its agencies. These investments are denominated in United States dollars.

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

As of July 27, 2014 and January 26, 2014, we had $4.39 billion and $4.67 billion, respectively, in cash, cash equivalents and marketable securities. Our investment policy requires the purchase of high grade investment securities and the diversification of asset types and includes certain limits on our portfolio duration, as specified in our investment policy guidelines. These guidelines also limit the amount of credit exposure to any one issue, issuer or type of instrument. As of July 27, 2014, we were in compliance with our investment policy. As of July 27, 2014, our investments in government agencies and government-sponsored enterprises represented 38% of our total investment portfolio, while the financial sector accounted for 33% of our total investment portfolio. All of our investments are with A/A3 or better rated securities.

We performed an impairment review of our investment portfolio as of July 27, 2014. Based on our quarterly impairment review, we concluded that our investments were appropriately valued and did not record any impairment during the second quarter of fiscal year 2015.

Net realized gains for the second quarter and the first half of fiscal year 2015 were insignificant. Net realized gains for the second quarter and the first half of fiscal year 2014 were $1.6 million and $1.7 million, respectively. As of July 27, 2014, we had a net unrealized gain of $4.5 million, which was comprised of gross unrealized gains of $7.8 million, offset by gross unrealized losses of $3.4 million. As of January 26, 2014, we had a net unrealized gain of $4.8 million, which was comprised of gross unrealized gains of $7.2 million, offset by $2.4 million of gross unrealized losses.

Our accounts receivable are highly concentrated. Two customers accounted for 31% of our accounts receivable balance at July 27, 2014. We maintain an allowance for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. This allowance consists of an amount identified for specific customers and an amount based on overall estimated exposure.

Our cash balances are held in numerous locations throughout the world, including substantial amounts held outside of the United States. Most of the amounts held outside the United States may be repatriated to the United States. However, if we repatriate foreign earnings for cash requirements in the United States, we would incur U.S. federal income tax at rate of 35% less utilization of any net operating loss carry forwards, and further offset by any applicable research and foreign tax credits, plus any state income taxes on such income. Repatriation of some foreign balances may be restricted by local laws.

Dividend payments and any stock repurchases must be made from cash held in the United States. In the second quarter and first half of fiscal year 2015, we made total cash dividend payments of $47.4 million and $94.2 million, respectively and repurchased $500.0 million of our common stock, utilizing a significant amount of our U.S. cash balance previously taxed as of the end of the second quarter of fiscal year 2015.

Stock Repurchase Program

Our Board of Directors has authorized us to repurchase up to $3.70 billion of our common stock through January 2016. As of July 27, 2014, we had repurchased $2.95 billion of that amount, leaving up to $748.4 million available under this authorization through January 2016. We have announced our intention to return $1.0 billion to shareholders in fiscal year 2015 in the form of share repurchases and dividends. As part of our stock repurchase program, during February 2014 we entered into an accelerated share repurchase agreement to purchase $500.0 million in shares of our common stock, which we have completed. Please refer to Note 13 of the Notes to Condensed Consolidated Financial Statements or further disclosure regarding the accelerated share repurchase agreement. Subsequently, in August 2014, we entered into an additional ASR to purchase $310.0 million in shares of our common stock.

Cash Dividend Program

During the first half of fiscal year 2015, we paid $94.2 million in dividends to our common stockholders. This dividend was equivalent to $0.085 per share on a quarterly basis, or $0.34 per share on an annual basis. We also declared that we would pay our next quarterly cash dividend of $0.085 per share on September 12, 2014, to all stockholders of record on August 21, 2014.

Our cash dividend program and the payment of future cash dividends under that program are subject to continued capital availability and our Board's continuing determination that the dividend program and the declaration of dividends thereunder are in the best interests of our stockholders and are in compliance with all laws and agreements of NVIDIA applicable to the declaration and payment of cash dividends.

Operating Capital and Capital Expenditure Requirements

We believe that our existing cash balances and anticipated cash flows from operations will be sufficient to meet our operating, acquisition, stock repurchase, cash dividend and capital requirements for at least the next twelve months. However, there is no assurance that we will not need to raise additional equity or debt financing within this time frame. Additional financing may not be available on favorable terms or at all and may be dilutive to our then-current stockholders. We also may require additional capital for other purposes not presently contemplated.

For additional factors see “Item 1A. Risk Factors - Risks Related to Our Business, Industry and Partners - Our revenue may fluctuate while a majority of our operating expenses are a factor of multi-year investments ahead of when revenue is received, which makes our results difficult to predict and could cause our results to fall short of expectations.”

Contractual Obligations

As of July 27, 2014, we had outstanding inventory purchase obligations totaling $486.3 million. There were no other material changes in our contractual obligations from those disclosed in our Annual Report on Form 10-K for the fiscal year ended January 26, 2014.

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

Off-Balance Sheet Arrangements

As of July 27, 2014, we had no material off-balance sheet arrangements as defined in Regulation S-K 303(a)(4)(ii).

Adoption of New and Recently Issued Accounting Pronouncements

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Investment and Interest Rate Risk

As of July 27, 2014 and January 26, 2014, we had $4.39 billion and $4.67 billion, respectively, in cash, cash equivalents and marketable securities. We invest in a variety of financial instruments, consisting principally of cash and cash equivalents, commercial paper, mortgage-backed securities issued by government-sponsored enterprises, equity securities, money market funds, asset-backed securities and debt securities of corporations, municipalities and the United States government and its agencies. As of July 27, 2014, we did not have any investments in auction-rate preferred securities. All of our investments are denominated in United States dollars.

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

As of July 27, 2014, we performed a sensitivity analysis on our floating and fixed rate investments. According to our analysis, parallel shifts in the yield curve of both plus or minus 0.5% would result in changes in fair market values for these investments of $27 million - $28 million

Other income (expense), net could also vary materially from expectations depending on gains or losses realized on the sale or exchange of financial instruments; impairment charges related to debt securities as well as equity and other investments; interest rates; and cash, cash equivalent and marketable securities balances. Volatility in the financial markets and economic uncertainty increases the risk that the actual amounts realized in the future on our financial instruments could differ significantly from the fair values currently assigned to them. As of July 27, 2014, our investments in government agencies and government-sponsored enterprises represented 38% of our total investment portfolio, while the financial sector accounted for 33% of our total investment portfolio. Substantially all of our investments are with A/A3 or better rated securities. If the fair value of our investments in these sectors was to decline by 2% - 5%, the fair values of these investments would decline by $58 million- $145 million.

Exchange Rate Risk

We consider our direct exposure to foreign exchange rate fluctuations to be minimal. Gains or losses from foreign currency re-measurement are included in “Other income (expense), net” in our Condensed Consolidated Financial Statements and to date have not been significant. The impact of foreign currency transaction gain or loss included in determining net income for the second quarter of fiscal years 2015 and 2014 was a $0.5 million loss and a $2.6 million gain, respectively. During the first half of fiscal years 2015 and 2014, the aggregate foreign currency exchange gain included in determining net income was $0.3 million and $4.4 million, respectively. Currently, sales and arrangements with third-party manufacturers provide for pricing and payment in United States dollars, and, therefore, are not subject to exchange rate fluctuations. Increases in the value of the United States' dollar relative to other currencies would make our products more expensive, which could negatively impact our ability to compete. Conversely, decreases in the value of the United States' dollar relative to other currencies could result in our suppliers raising their prices in order to continue doing business with us. Fluctuations in currency exchange rates could harm our business in the future.

We may enter into certain transactions such as forward contracts which are designed to reduce the future potential impact resulting from changes in foreign currency exchange rates. There were no forward exchange contracts outstanding at July 27, 2014.

ITEM 4. CONTROLS AND PROCEDURES

Controls and Procedures

Disclosure Controls and Procedures

Based on their evaluation as of July 27, 2014, our management, including our Chief Executive Officer and Chief Financial Officer, has concluded that our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended) were effective to provide reasonable assurance.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal controls over financial reporting during our fiscal quarter ended July 27, 2014 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitations on Effectiveness of Controls

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

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

ITEM 1A. RISK FACTORS

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

Risks Related to Our Business, Industry and Partners

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

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

We expect competition to increase from both existing competitors and new market entrants with products that may be less costly than ours, or may provide better performance or additional features not provided by our products. In addition, it is possible that new competitors or alliances among competitors could emerge and acquire significant market share. Furthermore, competitors with greater financial flexibility may be able to offer lower prices than us, or they may offer additional products, services or other incentives that we may not be able to match. In addition, many of our competitors operate and maintain their own fabrication facilities and have longer operating histories, greater name recognition, larger customer bases, and greater sales, marketing and distribution resources than we do. In order to effectively compete we may have to invest more resources in research and development than anticipated, which could increase our operating expenses and negatively impact our operating results. If we are required to invest significantly greater resources than anticipated in research and development efforts without a corresponding increase in revenue, our operating results could decline. In order to remain competitive and meet the demands of the markets we serve, we expect to devote a substantial portion of our resources to research and development. Our ability to compete will depend on, among other factors, our ability to:

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

If we are unable to compete in our current or new markets, demand for our products could decrease which could cause our revenue to decline and our financial results to suffer. If and to the extent we offer products in new markets, we may face competition from existing competitors as well as from companies with which we currently do not compete. We expect substantial competition from both Intel and AMD's strategy of selling platform solutions, including integrating a CPU and a GPU on the same chip or same package, as evidenced by Intel's CPUs with integrated graphics and AMD's APU product. As AMD and Intel continue to pursue platform solutions and integrated CPUs, we may not be able to successfully compete and our business could be negatively impacted. Despite the use of these integrated CPUs, personal computer, or PC, builders and consumers have continued to embrace discrete GPUs to provide higher performance. If integrated CPUs offer a more compelling value proposition in the future, PC builders and consumers may move away from the use of discrete GPUs, which could adversely affect our business and cause our financial results to decline.

We have implemented a business strategy to license our GPU cores and visual computing patent portfolio to device manufacturers. Although we have engaged in licensing in the past, we are now engaging a broader market with new and existing competitors who may be able to adapt more quickly to customer requirements and emerging technologies. We cannot be assured of the extent of the demand for licenses to our GPU cores or other elements of our visual computing patent portfolio, or that we will be able to compete successfully against current or new competitors who may have stronger positions in these new markets. If we are unable to enter into new licensing agreements or renew our existing agreements, and these agreements are not offset by other growth in income, our financial results may be adversely affected.

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

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

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

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

We occasionally have experienced delays in completing the development and introduction of new products and product enhancements, and we could experience delays in the future. In addition, in the past, we have faced challenges in managing product transitions from older to newer products resulting in obsolete inventory. Our failure to successfully develop and introduce new products and technologies or identify new uses for existing or future products could result in rapidly declining average selling prices, reduced demand for our products or loss of market share, any of which could harm our competitive position and cause our revenue, gross margin and overall financial results to suffer.

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

The success of our business depends to a significant extent on our ability to achieve consumer and market acceptance of our new products and enhancements to our existing products and identify and enter new markets, such as cloud-based computing appliances, servers, automotive technology, smartphones, tablets, video game consoles, and other similar consumer electronic devices. The markets for our products and technologies are characterized by unpredictable and sometimes rapid shifts in the popularity of products, often caused by the publication of competitive industry benchmark results, changes in pricing of dynamic random-access memory devices and other changes in the total system cost of add-in boards, or AIBs, as well as by severe price competition and by frequent new technology and product introductions. Broad consumer and market acceptance is difficult to achieve and such consumer and market acceptance, if achieved, is difficult to sustain due to intense competition and frequent new technology and product introductions. Our success in achieving consumer and market acceptance will depend in part on our ability to cultivate new industry relationships and improve the functionality of our products as the number of internet-connected devices increases. If we do not successfully achieve or maintain consumer and market acceptance for our products and enhancements or identify and enter new markets, our ability to compete and maintain or increase revenues will suffer.

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

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

If OEMs, ODMs, and AIB and motherboard manufacturers do not include our products in their systems, they will typically not use our products in their systems until at least the next design configuration.

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

We depend on foundries to manufacture our products and these third parties may not be able to obtain or successfully implement high quality, leading-edge process technologies or otherwise satisfy our manufacturing requirements, which would harm our business.

We do not manufacture the silicon wafers used for our products and do not own or operate a wafer fabrication facility. Instead, we are dependent on industry-leading foundries, such as Taiwan Semiconductor Manufacturing Company Limited, or TSMC, to manufacture our semiconductor wafers using their fabrication equipment and techniques. A substantial portion of our wafers are supplied by TSMC. The foundries, which have limited capacity, also manufacture products for other semiconductor companies, including some of our competitors. Because we do not have long-term commitment contracts with any of these foundries, they do not have an obligation to provide us with any set pricing or minimum quantity of product at any time except as may be provided in a specific purchase order. Most of our products are only manufactured by one foundry at a time. In times of high demand, the foundries could choose to prioritize their capacity for other companies, reduce or eliminate deliveries to us, or increase the prices that they charge us. If we are unable to meet customer demand due to reduced or eliminated deliveries or have to increase the prices of our products, we could lose sales to customers, which would negatively impact our revenue and our reputation.

Furthermore, our third-party foundries may not be able to develop, obtain or successfully implement high quality, leading-edge process technologies, including transitions to smaller geometry process technologies, needed to manufacture our products profitably or on a timely basis. If our third-party foundries experience manufacturing inefficiencies, we may fail to achieve acceptable yields or experience product delivery delays.

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

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

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

A decline in demand in certain end-user markets could decrease the demand for our products and harm our results of operations.

Our customer base includes companies in a wide range of end-user markets, but we generate a significant amount of revenue from sales to consumers of communications- and PC-related products. Within these end-user markets, a large portion of our revenue is generated from sales to consumers in the smartphone, tablet and PC markets, including professional workstations. Decline in one or several of these end-user markets could harm demand for our products and our results of operations and financial condition. These declines could be large and sudden. Because smartphone, tablet and PC manufacturers often build inventories during periods of anticipated growth, they may be left with excess inventories if growth slows or if they incorrectly forecast product transitions. In these cases, these manufacturers may abruptly suspend substantially all purchases of additional inventory from suppliers like us until their excess inventory has been absorbed, which would have a negative impact on our financial results.

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

We receive a significant amount of our revenue from a limited number of customers. Revenue from significant customers, those representing 10% or more of total revenue, was 21% of our total revenue from two customers for the second quarter of fiscal year 2015 and 10% of total revenue from one customer for the first half of fiscal year 2015. Revenue from significant customers was 23% and 22% of our total revenue from two customers for the second quarter and first half of fiscal year 2014, respectively. Two customers accounted for 31% of our accounts receivable balance as of July 27, 2014, and one customer accounted for 23% of our accounts receivable balance as of January 26, 2014. We maintain an allowance for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments and obtain credit insurance over the purchasing credit extended to certain customers. In the future, we may have to record additional provisions or write-offs and/or defer revenue on certain sales transactions which could negatively impact our financial results and as a result of the tightening of the credit markets, we may not be able to acquire credit insurance on the credit we extend to these customers or in amounts that we deem sufficient.

The percentage of revenue we receive from our largest customers has fluctuated significantly from period to period primarily due to the timing and number of design wins with each customer, as well as the continued diversification of our customer base as we expand into new markets, and will likely continue to fluctuate dramatically in the future. Our operating results in the foreseeable future will continue to depend on sales to a relatively small number of customers, as well as the ability of these customers to sell products that incorporate our products. In the future, these customers may decide not to purchase our products at all, purchase fewer products than they did in the past, or alter their purchasing patterns in some other way, particularly because:

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

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

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

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

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

Our revenue may fluctuate while a majority of our operating expenses are a factor of multi-year investments ahead of when revenue is received, which makes our results difficult to predict and could cause our results to fall short of expectations.

Our operating expenses, which are comprised of research and development expenses and sales, general and administrative expenses, represented 41.4% and 41.2% of our total revenue for the second quarter and first half of fiscal year 2015, respectively, and 45.0% and 45.3% of our total revenue for the second quarter and first half of fiscal year 2014, respectively. It is also difficult to accurately forecast revenue and we may not be able to adjust our operating expenses in a timely manner in response to any unanticipated revenue shortfalls in any quarter. Our research and development expenses are primarily related to multi-year investments ahead of the revenue received from the products which are produced. Further, some of our operating expenses, like multi-year development costs and stock-based compensation expense, can only be adjusted over a longer period of time and cannot be reduced during a quarter. If we are unable to reduce operating expenses quickly in response to any revenue shortfalls, our financial results will be negatively impacted.

Any one or more of the risks discussed in this Quarterly Report on Form 10-Q or other factors could prevent us from achieving our expected future revenue or net income. Accordingly, we believe that period-to-period comparisons of our results of operations should not be relied upon as an indication of future performance. Similarly, the results of any quarterly or full fiscal year period are not necessarily indicative of results to be expected for a subsequent quarter or a full fiscal year. As a result, it is possible that in some quarters our operating results could be below the expectations of securities analysts or investors, which could cause the trading price of our common stock to decline. We believe that our quarterly and annual results of operations may continue to be affected by a variety of factors that could harm our revenue, gross profit and results of operations.

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

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

- the mix of our products sold;

- average selling prices;
- introduction of new products;
- product transitions;

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- sales discounts;
- unexpected pricing actions by our competitors;
- the cost of product components; and
- the yield of wafers produced by the foundries that manufacture our products.

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

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

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

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

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

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

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

We have acquired and invested in other businesses that offered products, services and technologies that we believe will help expand or enhance our existing products and business.

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

- difficulty in combining the technology, products, operations or workforce of the acquired business with our business;
- difficulty in operating in a new or multiple new locations;
- disruption of our ongoing businesses or the ongoing business of the company we invest in or acquire;
- difficulty in realizing the potential financial or strategic benefits of the transaction;
- difficulty in maintaining uniform standards, controls, procedures and policies;
- difficulty integrating the target's accounting, management information, human resources and other administrative systems;
- diversion of capital and other resources;
- assumption of liabilities;
- incurring acquisition-related costs or amortization costs for acquired intangible assets that could impact our operating results;
- incurring impairment charges related to goodwill and other purchased intangible assets acquired in connection with acquisitions or investments;
- purchase accounting adjustments, including the write-down of deferred revenue and restructuring charges;
- diversion of resources and unanticipated expenses resulting from litigation arising from potential or actual business acquisitions or investments;
- potential failure of the due diligence processes to identify significant issues with product quality, architecture and development, or legal and financial contingencies, among other things;
- difficulties in entering into new markets in which we have limited or no experience and where competitors in such markets have stronger positions;
- potential inability to obtain, or obtain in a timely manner, approvals from governmental authorities, which could delay or prevent such acquisitions or investments; and
- impairment of relationships with employees, vendors and customers, or the loss of any of our key employees, vendors or customers or our target's key employees, vendors or customers, as a result of our acquisition or investment.

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

Under generally accepted accounting principles in the United States, or U.S. GAAP, we review our amortizable intangible assets and goodwill for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. Goodwill is tested for impairment at least annually. The carrying value of our goodwill or amortizable assets from acquisitions may not be recoverable due to factors such as a decline in stock price and market capitalization, reduced estimates of future cash flows and slower growth rates in our industry or in any of our reporting units. Estimates of future cash flows are based on an updated long-term financial outlook of our operations. However, actual performance in the near-term or long-term could be materially different from these forecasts, which could impact future estimates. For example, in the most recent impairment test of our Tegra Processor reporting unit, the fair value of the reporting unit only exceeded its carrying value by 17%. If the future operating results of the Tegra Processor reporting unit are significantly lower than our estimates, the goodwill assigned to Tegra Processor could be impaired, which would negatively impact our results of operations.

System security risks, data protection breaches, cyber-attacks and systems integration issues could disrupt our internal operations, and any such disruption could reduce our expected revenue, increase our expenses, damage our reputation and adversely affect our stock price.
Security breaches, computer malware and computer hacking attacks have become more prevalent and sophisticated in our industry, have occurred on our systems in the past and may occur on our systems in the future. Experienced computer programmers and hackers may be able to penetrate our security controls and misappropriate or compromise our confidential information or that of third parties, create system disruptions or cause shutdowns. Computer programmers and hackers also may be able to develop and deploy viruses, worms and other malicious software programs that attack our products or otherwise exploit any security vulnerabilities of our products. Data security breaches may also result from non-technical means, for example, actions by an employee. The costs to us to eliminate or alleviate malicious software programs and security vulnerabilities could be significant, and our efforts to address these problems may not be successful and could result in interruptions, delays, cessation of service and loss of existing or potential customers that may impede our sales, manufacturing, distribution or other critical functions.

We manage and store various proprietary information and sensitive or confidential data relating to our business and third party business. Actual or perceived breaches of our security measures or the accidental loss, inadvertent disclosure or unapproved dissemination of proprietary information or sensitive or confidential data about us or our partners or customers, including the potential loss or disclosure of such information or data as a result of fraud, trickery or other forms of deception, or employee theft or misuse could expose us, our partners and customers or the individuals affected to a risk of loss or misuse of this information, result in litigation and potential liability for us, damage our brand and reputation or otherwise harm our business. In addition, the cost and operational consequences of implementing further data protection measures could be significant. For example, in July 2012, unauthorized third parties gained access to certain user information on our online forums. We have strengthened security in an effort to minimize future attacks. However, hackers may continue to target our security controls in the future, and we cannot guarantee that our security measures will be able to prevent future breaches of our website and/or attacks on our products.
Portions of our IT infrastructure, including business management and communication software products provided by third parties, also may experience interruptions of service or produce errors in connection with systemic failures, systems integration or migration work that takes place from time to time. We may not be successful in implementing new systems and transitioning data, which could cause business disruptions and be more expensive, time consuming, disruptive and resource-intensive. Such disruptions could adversely impact our ability to fulfill orders and interrupt other processes. Delayed sales, lower margins or lost customers resulting from these disruptions could adversely affect our financial results, stock price and reputation.

We may not be able to attract and retain qualified employees which could negatively impact our business.
Our future success and ability to compete are substantially dependent on our ability to identify, hire, train and retain highly qualified key personnel. The market for key employees in the technology industry can be competitive. None of our key employees is bound by an employment agreement, meaning our relationships with all of our key employees are at will. The loss of the services of any of our key employees could delay our product development efforts, harm our ability to sell our products or otherwise negatively impact our business.
We are dependent on third parties for assembly, testing and packaging of our products, which reduces our control over our product delivery schedule, product quantity or product quality.
Our products are assembled, tested and packaged by independent subcontractors, such as Advanced Semiconductor Engineering, Inc., ChipPAC, JSI Logistics, Ltd., King Yuan Electronics Co. and Siliconware Precision Industries Co. Ltd. As a result, we do not directly control our product delivery schedules, product quantity, or product quality. All of these subcontractors assemble, test and package products for other companies, including some of our competitors. Because we do not have long-term agreements with our subcontractors, when demand for subcontractors to assemble, test or package products is high, our subcontractors may decide to prioritize the orders of other customers over our orders. Because the time required to qualify a different subcontractor to assemble, test or package our

products can be lengthy, if we have to find a replacement subcontractor we could experience significant delays in shipments of our products, product shortages, a decrease in the quality of our products, or an increase in product cost. Any product shortages or quality assurance problems could increase the costs of manufacture, assembly or testing of our products, which could cause our gross margin to decline.

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

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

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

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

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

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

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

We are subject to risks associated with international operations which may harm our business.
We conduct our business worldwide and we have offices in various countries outside of the United States. Our semiconductor wafers are manufactured, assembled, tested and packaged by third parties located outside of the United States and other Americas. We generated 74% and 75% of our revenue for the second quarter and first half of fiscal year 2015, respectively, and 75% of our revenue for both the second quarter and first half of fiscal year 2014 from sales to customers outside the United States and other Americas. The manufacture, assembly, test and packaging of our products outside of the United States, operation of offices outside of the United States, and sales to customers internationally subjects us to a number of risks, including:

- international economic and political conditions, such as political tensions between countries in which we do business;
- unexpected changes in, or impositions of, legislative or regulatory requirements;
- complying with a variety of foreign laws;
- differing legal standards with respect to protection of intellectual property and employment practices;
- local business and cultural factors that differ from our normal standards and practices, including business practices that we are prohibited from engaging in by the Foreign Corrupt Practices Act and other anticorruption laws and regulations;
- inadequate local infrastructure that could result in business disruptions;
- exporting or importing issues related to export or import restrictions, tariffs, quotas and other trade barriers and restrictions;
- financial risks such as longer payment cycles, difficulty in collecting accounts receivable and fluctuations in currency exchange rates;
- imposition of additional taxes and penalties;
- increased costs due to imposition of climate change regulations, such as carbon taxes, fuel or energy taxes, and pollution limits; and
- other factors beyond our control such as terrorism, cyber attack, civil unrest, war and diseases.

If sales to any of our customers outside of the United States and other Americas are delayed or cancelled because of any of the above factors, our revenue may be negatively impacted.
Our international operations are subject to many of the above listed risks. Difficulties with our international operations, including finding appropriate staffing and office space, may divert management's attention and other resources, any of which could negatively impact our operating results.
Legal and regulatory requirements differ among jurisdictions worldwide. Violations of these laws and regulations could result in fines; criminal sanctions against us, our officers, or our employees; prohibitions on the conduct of our business; and damage to our reputation. Although we have policies, controls, and procedures designed to ensure compliance with foreign laws, many of these laws and regulations are ambiguous and are often interpreted and enforced in unpredictable ways.
The economic conditions in our primary overseas markets, particularly in Asia, may negatively impact the demand for our products abroad. All of our international sales to date have been denominated in United States dollars. Accordingly, an increase in the value of the United States dollar relative to foreign currencies could make our products less competitive in international markets or require us to assume the risk of denominating certain sales in foreign currencies. We anticipate that these factors will impact our business to a greater degree as we further expand our international business activities.

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

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

Our investment portfolio may become impaired by deterioration of the capital markets.

Our cash equivalent and marketable securities portfolio as of July 27, 2014 consisted of cash and cash equivalents, commercial paper, mortgage-backed securities issued by government-sponsored enterprises, asset-backed securities, money market funds and debt securities of corporations, municipalities and the United States government and its agencies. We follow an established investment policy and set of guidelines, designed to preserve principal, minimize risk, and monitor and help mitigate our exposure to interest rate and credit risk. The policy sets forth credit quality standards and limits our exposure to any one issuer, as well as our maximum exposure to various asset classes, and a variety of financial instruments, consisting principally of cash and cash equivalents, commercial paper, mortgage-backed securities issued by government-sponsored enterprises, asset-backed securities, money market funds and debt securities of corporations, municipalities and the United States government and its agencies.

Should financial market conditions worsen in the future, investments in some financial instruments may pose risks arising from market liquidity and credit concerns. In addition, any deterioration of the capital markets could cause our other income and expense to vary from expectations. As of July 27, 2014, we had no material impairment charges associated with our short-term investment portfolio, and although we believe our current investment portfolio has very little risk of material impairment, we cannot predict future market conditions or market liquidity, or credit availability, and can provide no assurance that our investment portfolio will remain materially unimpaired.

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

Our common stock price has at times experienced substantial price volatility and, as a result, investors may suffer losses.

Our stock has at times experienced substantial price volatility as a result of variations between our actual and anticipated financial results, announcements by us and our competitors, or uncertainty about current global economic conditions. The stock market as a whole also has experienced extreme price and volume fluctuations that have affected the market price of many technology companies in ways that may have been unrelated to these companies' operating performance.

In the past, securities class action litigation has often been brought against a company following periods of volatility in the market price of its securities. Due to changes in the volatility of our stock price, we have been in the past and may be in the future the target of securities litigation. Such lawsuits generally result in the diversion of management's time and attention away from business operations, which could harm our business. In addition, the costs of defense and any damages resulting from litigation, a ruling against us, or a settlement of the litigation could adversely affect our cash flow and financial results.

We are subject to litigation which, if determined adversely to us, could harm our business.

We are engaged in litigation with parties related to our acquisition of 3dfx in 2001. In addition, in September, October and November 2008, several putative securities class action lawsuits were filed against us for alleged defects in our previous generation MCP and GPU products. Please refer to Note 12 of the Notes to Condensed Consolidated Financial Statements for further details on these lawsuits.

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

Actions to adequately protect our intellectual property rights, such as litigation to defend against alleged infringement of intellectual property rights or to enforce our intellectual property rights, could result in substantial costs to us and our ability to compete could be harmed if we fail to take such actions or are unsuccessful in doing so.

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

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

Our pending patent applications and any future applications may not be approved. In addition, any issued patents may not provide us with competitive advantages or may be challenged, invalidated, infringed, circumvented or misappropriated by third parties. We expect that as the number of issued hardware and software patents increases and as competition intensifies, the volume of intellectual property infringement claims and lawsuits may increase. We may in the future become involved in lawsuits or other legal proceedings alleging patent infringement or other intellectual property rights violations by us or parties that we have agreed to indemnify for certain claims of infringement. Third parties may also claim that our employees have misappropriated or divulged their former employers' trade secrets or confidential information.

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

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

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

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

If infringement claims are made against us or our products are found to infringe a third parties' patent or intellectual property, we or one of our indemnitees may have to seek a license to the third parties' patent or other intellectual property rights. However, we may not be able to obtain licenses at all or on terms acceptable to us particularly from our competitors. If we or one of our indemnitees is unable to obtain a license from a third party for technology that we use or that is used in one of our products, we could be subject to substantial liabilities or have to suspend or discontinue the manufacture and sale of one or more of our products. We may also have to make royalty or other payments, or cross license our technology. If these arrangements are not concluded on commercially reasonable terms, our business could be negatively impacted. Furthermore, the indemnification of a customer or other indemnitee may increase our operating expenses which could negatively impact our operating results.

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

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

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

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

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

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

We are subject to the risks of owning real property.

During fiscal year 2009, we purchased real property in Santa Clara, California that includes 36 acres of land and twelve commercial buildings and eventually expect to break ground on a new building for a corporate headquarters campus in Santa Clara. We also own real property in India. We have limited experience in the ownership and management of real property and are subject to the risks of owning real property, including:

- the possibility of environmental contamination and the costs associated with mitigating any environmental problems;
- adverse changes in the value of these properties, due to interest rate changes, changes in the market in which the property is located, or other factors;

- the risk of loss if we decide to sell and are not able to recover all capitalized costs;
- increased cash commitments for the planned construction of our Santa Clara campus;
- the possible need for structural improvements in order to comply with zoning, seismic and other legal or regulatory requirements;
- increased operating expenses for the buildings or the property or both;
- possible disputes with third parties, such as neighboring owners or others, related to the buildings or the property or both; and
- the risk of financial loss in excess of amounts covered by insurance, or uninsured risks, such as the loss caused by damage to the buildings as a result of earthquakes, floods and or other natural disasters.

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

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

We record compensation expense for stock options, restricted stock units, performance stock units and our employee stock purchase plan using the fair value of those awards in accordance with U.S. GAAP. Stock-based compensation expense was $38.4 million and $73.9 million for the second quarter and first half of fiscal year 2015, respectively, and $32.4 million and $65.8 million for the second quarter and first half of fiscal year 2014, respectively, related to on-going vesting of equity awards, which negatively impacted our operating results.

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

We have a substantial amount of indebtedness which could adversely affect our financial position and prevent us from implementing our strategy or fulfilling our contractual obligations.

In December 2013, we issued $1.5 billion of 1.00% Convertible Senior Notes due 2018, or 1.00% Notes. Our substantial indebtedness may:

- limit our ability to use our cash flow or borrow additional funds for working capital, capital expenditures, acquisitions and general corporate and other purposes;
- make it difficult for us to satisfy our financial obligations;
- place us at a competitive disadvantage compared to our less leveraged competitors; and
- increase our vulnerability to the impact of adverse economic and industry conditions.

The exercise of warrants issued to Goldman, Sachs & Co., or Goldman, concurrently with our 1.00% Notes would, and the conversion of our 1.00% Notes could, dilute the ownership interest of our existing stockholders.

The warrants issued concurrently with our 1.00% Notes shall be deemed to be automatically exercised on certain dates between March 2019 and June 2019, unless Goldman notifies us otherwise. Any issuance by us of additional shares to Goldman upon exercise of the warrants will dilute the ownership interests of our existing stockholders. Moreover, the conversion of our 1.00% Notes may dilute the ownership interests of our existing stockholders and could have a dilutive effect on our net income per share to the extent that the price of our common stock exceeds the conversion price of the 1.00% Notes. Any sales in the public market by Goldman of our common stock upon exercise of the warrants or sales in the public market of our common stock issuable upon conversion of the 1.00% Notes could adversely affect prevailing market prices of our common stock.

Our failure to comply with any applicable environmental regulations could result in a range of consequences, including fines, suspension of production, excess inventory, sales limitations, and criminal and civil liabilities.
We are subject to various state, federal and international laws and regulations governing the environment, including restricting the presence of certain substances in electronic products and making producers of those products financially responsible for the collection, treatment, recycling and disposal of those products. Although our management systems are designed to maintain compliance, we cannot assure you that we have been or will be at all times in complete compliance with such laws and regulations. If we violate or fail to comply with any of them, a range of consequences could result, including fines, import/export restrictions, sales limitations, criminal and civil liabilities or other sanctions. We could also be held liable for any and all consequences arising out of exposure to hazardous materials used, stored, released, disposed of by us or located at, under or emanating from our facilities or other environmental or natural resource damage.
Environmental laws are complex, change frequently and have tended to become more stringent over time. For example, the European Union and China are two among a growing number of jurisdictions that have enacted in recent years restrictions on the use of lead, among other chemicals, in electronic products. These regulations affect semiconductor packaging. There is a risk that the cost, quality and manufacturing yields of lead-free products may be less favorable compared to lead-based products or that the transition to lead-free products may produce sudden changes in demand, which may result in excess inventory.
The SEC has adopted annual disclosure requirements regarding the use of “conflict” minerals mined from the Democratic Republic of Congo and adjoining countries. The implementation of these requirements could affect the sourcing and availability of minerals used in the manufacture of semiconductor devices. As a result, there may only be a limited pool of suppliers who provide conflict-free metals, and we cannot assure you that we will be able to obtain products in sufficient quantities or at competitive prices. Furthermore, we may incur additional costs associated with complying with these disclosure requirements, including costs related to determining the source of any “conflict” minerals in our products. Also, because our supply chain is complex, we may be unable to sufficiently verify the origins for all metals used in our products, resulting in reputational challenges with our customers and stockholders. Some customers may require that all of our products are certified to be conflict-free; if we cannot satisfy these customers, they may choose a competitor's products. Additionally, we are dependent upon the information provided by our many suppliers. To the extent that the information we receive from our suppliers is inaccurate or inadequate or our processes in obtaining such information do not fulfill the SEC’s diligence requirements, we could also face SEC enforcement risks.

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

in the market price of our stock.

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

We prepare our condensed consolidated financial statements in conformity with U.S. GAAP. These principles are constantly subject to review and interpretation by the SEC and various bodies formed to interpret and create appropriate accounting principles. A change in these principles, or the interpretation of them, can have a significant effect on our reported results and may even retroactively affect previously reported transactions. Additionally, changes in existing accounting rules, such as the possible upcoming changes to revenue recognition and lease accounting standards, or changes in practices, such as changes to auditing standards promulgated by the Public Company Accounting Oversight Board, could have a significant adverse effect on our results of operations or the manner in which we conduct our business.

Delaware law and provisions in our certificate of incorporation, our bylaws and our agreement with Microsoft Corporation could delay or prevent a change in control.

Our status as a Delaware corporation and the anti-takeover provisions of the Delaware General Corporation Law may discourage, delay, or prevent a change in control by prohibiting us from engaging in a business combination with an interested stockholder for a period of three years after the person becomes an interested stockholder, even if a change of control would be beneficial to our existing stockholders. In addition, our certificate of incorporation and bylaws contain provisions that could make it more difficult for a third party to acquire a majority of our outstanding voting stock. These provisions include the following:

- the ability of our Board of Directors to create and issue preferred stock without prior stockholder approval;
- the prohibition of stockholder action by written consent;
- advance notice requirements for director nominations and stockholder proposals;
- the ability of our Board of Directors to increase or decrease the number of directors without stockholder approval;
- a super-majority voting requirement to amend some provisions in our certificate of incorporation and bylaws;
- the elimination of the ability of our stockholders to call special meetings of stockholders; and
- the ability of our Board of Directors to make, amend or repeal our bylaws.

On March 5, 2000, we entered into an agreement with Microsoft in which we agreed to develop and sell graphics chips and to license certain technology to Microsoft and its licensees for use in the Xbox. Under the agreement, if an individual or corporation makes an offer to purchase shares equal to or greater than 30% of the outstanding shares of our common stock, Microsoft may have first and last rights of refusal to purchase the stock. The Microsoft provision and the other factors listed above could also delay or prevent a change in control of NVIDIA. These provisions could also discourage proxy contests and make it more difficult for stockholders to elect directors of their choosing and to cause us to take other corporate actions they desire.

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

Issuer Purchases of Equity Securities

Our Board of Directors has authorized us to repurchase up to $3.70 billion of our common stock through January 2016. Through July 27, 2014, we have repurchased an aggregate of 188.7 million shares under our stock repurchase program for a total cost of $2.95 billion. As of July 27, 2014, we were authorized, subject to certain specifications, to repurchase additional shares of our common stock up to $748.4 million.

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

The following table presents details of our share repurchase transactions during the three months ended July 27, 2014 (in millions, except per share amounts):

Period	Total Number of Shares Purchased	Average Price Paid per Share (1)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
April 28, 2014 - May 25, 2014	—	—	—	$748.4
May 26, 2014 - June 22, 2014	—	—	—	$748.4
June 23, 2014 - July 27, 2014	6.8	—	6.8	$748.4
Total	6.8		6.8	

(1) During February 2014, we entered into an accelerated share repurchase, or an ASR, agreement with Goldman, Sachs & Co., such that we paid $500.0 million to purchase shares of our common stock and received an initial 20.6 million shares in February 2014 and an additional 6.8 million shares at the time of settlement of the ASR in July 2014, without any further cash payment. The price ultimately paid per share under the ASR was $18.23. However, because the shares delivered to us in the second quarter of fiscal year 2015 occurred without further cash payment, the average price paid per share in the table above is nil. Please refer to Note 13 of the Notes to Condensed Consolidated Financial Statements in Part I, Item 1 of this Quarterly Report on Form 10-Q for a discussion regarding the accelerated share repurchase program.

Subsequently, as part of the repurchase program, we entered into another ASR with an investment bank during August 2014 under which we paid $310.0 million to purchase shares of our common stock. In August 2014, the investment bank delivered 10.9 million shares to us. We expect to receive additional shares at the time of settlement of the ASR in the fourth quarter of fiscal year 2015. The price we will ultimately pay per share will be no more than the volume-weighted average price of our common stock over the period of the ASR.

In addition to our share repurchase program, we withhold common stock shares associated with net share settlements to cover tax withholding obligations upon the vesting of restricted stock unit awards under our equity incentive program. During first half of fiscal year 2015, we withheld 1.1 million shares at a total cost of $20.8 million through net share settlements. Please refer to Note 2 of the Notes to Consolidated Financial Statements for further discussion regarding our equity incentive plan.

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ITEM 6. EXHIBITS

EXHIBIT INDEX

Exhibit No.	Exhibit Description	Schedule /Form	File Number	Exhibit	Filing Date
10.1*	Amended and Restated 2007 Equity Incentive Plan				
10.2*	Amended and Restated 2012 Employee Stock Purchase Plan				
31.1*	Certification of Chief Executive Officer as required by Rule 13a-14(a) of the Securities Exchange Act of 1934				
31.2*	Certification of Chief Financial Officer as required by Rule 13a-14(a) of the Securities Exchange Act of 1934				
32.1#*	Certification of Chief Executive Officer as required by Rule 13a-14(b) of the Securities Exchange Act of 1934				
32.2#*	Certification of Chief Financial Officer as required by Rule 13a-14(b) of the Securities Exchange Act of 1934				
101.INS*	XBRL Instance Document				
101.SCH*	XBRL Taxonomy Extension Schema Document				
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document				
101.LAB*	XBRL Taxonomy Extension Labels Linkbase Document				
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document				
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document				

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

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

SIGNATURE

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

Date: August 20, 2014

	NVIDIA Corporation
By:	/s/ Colette M. Kress
	Colette M. Kress Executive Vice President and Chief Financial Officer (Duly Authorized Officer and Principal Financial Officer)

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