

NVIDIA CORP
Form 10-Q
November 15, 2018

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

FORM 10-Q

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

For the quarterly period ended October 28, 2018

OR

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

Commission file number: 0-23985

NVIDIA CORPORATION

(Exact name of registrant as specified in its charter)

Delaware 94-3177549

(State or Other Jurisdiction of (I.R.S. Employer
Incorporation or Organization) Identification No.)

2788 San Tomas Expressway

Santa Clara, California 95051

(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 x No "

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes x No o

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

Large accelerated	Accelerated filer	Non-accelerated filer	Smaller reporting	Emerging growth
filer x	o	o	company o	company o

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. 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 x

The number of shares of common stock, \$0.001 par value, outstanding as of November 9, 2018, was 610 million.

NVIDIA CORPORATION
FORM 10-Q
FOR THE QUARTER ENDED October 28, 2018
TABLE OF CONTENTS

Page

PART I : FINANCIAL INFORMATION

<u>Item 1.</u>	Financial Statements (Unaudited)	
	a) Condensed Consolidated Statements of Income for the three and nine months ended October 28, 2018 and October 29, 2017	<u>3</u>
	b) Condensed Consolidated Statements of Comprehensive Income for the three and nine months ended October 28, 2018 and October 29, 2017	<u>4</u>
	c) Condensed Consolidated Balance Sheets as of October 28, 2018 and January 28, 2018	<u>5</u>
	d) Condensed Consolidated Statements of Cash Flows for the nine months ended October 28, 2018 and October 29, 2017	<u>6</u>
	e) Notes to Condensed Consolidated Financial Statements	<u>7</u>
<u>Item 2.</u>	Management's Discussion and Analysis of Financial Condition and Results of Operations	<u>23</u>
<u>Item 3.</u>	Quantitative and Qualitative Disclosures About Market Risk	<u>31</u>
<u>Item 4.</u>	Controls and Procedures	<u>31</u>

PART II : OTHER INFORMATION

<u>Item 1.</u>	Legal Proceedings	<u>31</u>
<u>Item 1A.</u>	Risk Factors	<u>31</u>
<u>Item 2.</u>	Unregistered Sales of Equity Securities and Use of Proceeds	<u>32</u>
<u>Item 6.</u>	Exhibits	<u>33</u>
<u>Signature</u>		<u>34</u>

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>)

NVIDIA Instagram Page (<https://www.instagram.com/nvidia>)

In addition, investors and others 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

(In millions, except per share data)

(Unaudited)

	Three Months Ended		Nine Months Ended	
	October 28, 2018	October 29, 2017	October 28, 2018	October 29, 2017
Revenue	\$3,181	\$2,636	\$9,511	\$6,803
Cost of revenue	1,260	1,067	3,547	2,782
Gross profit	1,921	1,569	5,964	4,021
Operating expenses				
Research and development	605	462	1,729	1,290
Sales, general and administrative	258	212	725	594
Total operating expenses	863	674	2,454	1,884
Income from operations	1,058	895	3,510	2,137
Interest income	37	17	94	48
Interest expense	(15)	(15)	(44)	(46)
Other, net	1	(1)	12	(22)
Total other income (expense)	23	1	62	(20)
Income before income tax	1,081	896	3,572	2,117
Income tax expense (benefit)	(149)	58	(3)	189
Net income	\$1,230	\$838	\$3,575	\$1,928
Net income per share:				
Basic	\$2.02	\$1.39	\$5.88	\$3.23
Diluted	\$1.97	\$1.33	\$5.71	\$3.05
Weighted average shares used in per share computation:				
Basic	609	603	608	597
Diluted	625	628	626	633

Cash dividends declared and paid per common share \$0.15 \$0.14 \$0.45 \$0.42

See accompanying Notes to Condensed Consolidated Financial Statements.

NVIDIA CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In millions)

(Unaudited)

	Three Months Ended October 28, 2018		Nine Months Ended October 28, 2018	
	October 29, 2017		October 29, 2017	
Net income	\$1,230	\$ 838	\$3,575	\$1,928
Other comprehensive income (loss), net of tax				
Available-for-sale securities:				
Net unrealized gain (loss)	3	(3	) 6	2
Reclassification adjustments for net realized gain included in net income	—	1	1	1
Net change in unrealized gain (loss)	3	(2	) 7	3
Cash flow hedges:				
Net unrealized gain (loss)	1	(1	) (7	) (3
Reclassification adjustments for net realized gain (loss) included in net income	(5	) 1	(6	) 3
Net change in unrealized loss	(4	) —	(13) —
Other comprehensive income (loss), net of tax	(1	) (2	) (6	) 3
Total comprehensive income	\$1,229	\$ 836	\$3,569	\$1,931

See accompanying Notes to Condensed Consolidated Financial Statements.

NVIDIA CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

(In millions)

(Unaudited)

	October 28, 2018	January 28, 2018
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 721	\$ 4,002
Marketable securities	6,870	3,106
Accounts receivable, net	2,219	1,265
Inventories	1,417	796
Prepaid expenses and other current assets	159	86
Total current assets	11,386	9,255
Property and equipment, net	1,292	997
Goodwill	618	618
Intangible assets, net	49	52
Other assets	312	319
Total assets	\$ 13,657	\$ 11,241

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities:		
Accounts payable	\$ 902	\$ 596
Accrued and other current liabilities	703	542
Convertible short-term debt	3	15
Total current liabilities	1,608	1,153
Long-term debt	1,987	1,985
Other long-term liabilities	587	632
Total liabilities	4,182	3,770
Commitments and contingencies - see Note 13		
Shareholders' equity:		
Preferred stock	—	—
Common stock	1	1
Additional paid-in capital	5,891	5,351
Treasury stock, at cost	(8,489)	(6,650)
Accumulated other comprehensive loss	(24)	(18)
Retained earnings	12,096	8,787
Total shareholders' equity	9,475	7,471
Total liabilities and shareholders' equity	\$ 13,657	\$ 11,241

See accompanying Notes to Condensed Consolidated Financial Statements.

NVIDIA CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In millions)

(Unaudited)

	Nine Months Ended	
	October 28, 2018	October 29, 2017
Cash flows from operating activities:		
Net income	\$3,575	\$1,928
Adjustments to reconcile net income to net cash provided by operating activities:		
Stock-based compensation expense	400	265
Depreciation and amortization	184	145
Deferred income taxes	30	158
Loss on early debt conversions	—	19
Other	(35)	15
Changes in operating assets and liabilities:		
Accounts receivable	(943)	(342)
Inventories	(620)	(61)
Prepaid expenses and other assets	(68)	(26)
Accounts payable	224	27
Accrued and other current liabilities	147	(15)
Other long-term liabilities	(49)	31
Net cash provided by operating activities	2,845	2,144
Cash flows from investing activities:		
Proceeds from maturities of marketable securities	6,267	739
Proceeds from sales of marketable securities	114	802
Purchases of marketable securities	(10,112)	(36)
Purchases of property and equipment and intangible assets	(397)	(177)
Investment in non-affiliates	(9)	(26)
Net cash provided by (used in) investing activities	(4,137)	1,302
Cash flows from financing activities:		
Payments related to repurchases of common stock	(855)	(909)
Repayment of Convertible Notes	(12)	(803)
Dividends paid	(273)	(250)
Proceeds related to employee stock plans	135	132
Payments related to tax on restricted stock units	(982)	(577)
Other	(2)	(3)
Net cash used in financing activities	(1,989)	(2,410)
Change in cash and cash equivalents	(3,281)	1,036
Cash and cash equivalents at beginning of period	4,002	1,766
Cash and cash equivalents at end of period	\$721	\$2,802

Other non-cash investing activity:

Assets acquired by assuming related liabilities \$98 \$20

See accompanying Notes to Condensed Consolidated Financial Statements.

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

Note 1 - Summary of Significant Accounting Policies

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements were prepared in accordance with accounting principles generally accepted in the United States of America, or U.S. GAAP, for interim financial information and with the instructions to Form 10-Q and Article 10 of Securities and Exchange Commission, or SEC, Regulation S-X. The January 28, 2018 consolidated balance sheet was derived from our audited consolidated financial statements included in our Annual Report on Form 10-K for the fiscal year ended January 28, 2018, as filed with the SEC, but does not include all disclosures required by U.S. GAAP. 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 consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the fiscal year ended January 28, 2018.

Significant Accounting Policies

Except for the accounting policy for revenue recognition, which was updated as a result of adopting a new accounting standard related to revenue recognition, there have been no material changes to our significant accounting policies in Note 1 - Organization and Summary of Significant Accounting Policies, of the Notes to the Consolidated Financial Statements included in our Annual Report on Form 10-K for the fiscal year ended January 28, 2018.

Revenue Recognition

We derive our revenue from product sales, including hardware and systems, license and development arrangements, and software licensing. We determine revenue recognition through the following steps: (1) identification of the contract with a customer; (2) identification of the performance obligations in the contract; (3) determination of the transaction price; (4) allocation of the transaction price to the performance obligations in the contract; and (5) recognition of revenue when, or as, we satisfy a performance obligation.

Product Sales Revenue

Revenue from product sales is recognized upon transfer of control of promised products to customers in an amount that reflects the consideration we expect to receive in exchange for those products. Revenue is recognized net of allowances for returns, customer programs and any taxes collected from customers.

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

Our customer programs involve rebates, which are designed to serve as sales incentives to resellers of our products in various target markets, and marketing development funds, or MDFs, which represent monies paid to our partners that are earmarked for market segment development and are designed to support our partners' activities while also promoting NVIDIA products. We account for customer programs as a reduction to revenue and accrue for potential rebates and MDFs based on the amount we expect to be claimed by customers.

License and Development Arrangements

Our license and development arrangements with customers typically require significant customization of our intellectual property components. As a result, we recognize the revenue from the license and the revenue from the development services as a single performance obligation over the period in which the development services are performed. We measure progress to completion based on actual cost incurred to date as a percentage of the estimated total cost required to complete each project. If a loss on an arrangement becomes probable during a period, we record

a provision for such loss in that period.

7

NVIDIA CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Software Licensing

Our software licenses provide our customers with a right to use the software when it is made available to the customer. Customers may purchase either perpetual licenses or subscriptions to licenses, which differ mainly in the duration over which the customer benefits from the software. Software licenses are frequently sold along with post-contract customer support, or PCS. For such arrangements, we allocate revenue to the software license and PCS on a relative standalone selling price basis by maximizing the use of observable inputs to determine the standalone selling price for each performance obligation. Revenue from software licenses is recognized up front when the software is made available to the customer. PCS revenue is recognized ratably over the service period, or as services are performed.

Fiscal Year

We operate on a 52- or 53-week year, ending on the last Sunday in January. Fiscal years 2019 and 2018 are both 52-week years. The third quarters of fiscal years 2019 and 2018 were both 13-week quarters.

Reclassifications

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

Principles of Consolidation

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

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ materially from our estimates. On an ongoing 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, litigation, investigation and settlement costs, restructuring and other charges, 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

Recently Adopted Accounting Pronouncements

The Financial Accounting Standards Board, or FASB, issued an accounting standards update that creates a single source of revenue guidance under U.S. GAAP for all companies, in all industries. We adopted this guidance on January 29, 2018 using the modified retrospective approach. Refer to Note 2 of these Notes to Condensed Consolidated Financial Statements for additional information.

In January 2016, the FASB issued an accounting standards update to amend certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. We are now required to recognize changes in the fair value of our equity investments through net income rather than other comprehensive income. We adopted this guidance in the first quarter of fiscal year 2019 and applied it prospectively. The adoption of this guidance did not have a significant impact on our consolidated financial statements.

Recent Accounting Pronouncement Not Yet Adopted

In February 2016 and July 2018, the FASB issued accounting standards updates regarding the accounting for leases by which we will begin recognizing lease assets and liabilities on the balance sheet for lease terms of more than 12 months. The FASB also recently provided a practical expedient transition method to adopt the new lease accounting requirements. We are evaluating the impact of adopting the new lease accounting standards on our consolidated financial statements, systems and processes in conjunction with our review of lease agreements. The updates will be effective for us beginning in the first quarter of fiscal year 2020. We expect the adoption of this accounting guidance to result in an increase in lease assets and a corresponding increase in lease liabilities on our Consolidated Balance

Sheets.

8

NVIDIA CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Note 2 - New Revenue Accounting Standard

Method and Impact of Adoption

On January 29, 2018, we adopted the new revenue accounting standard using the modified retrospective method and applied it to contracts that were not completed as of that date. Upon adoption, we recognized the cumulative effect of the new standard as a \$7 million increase to opening retained earnings, net of tax. Comparative information for prior periods has not been adjusted. The impact of the new standard on our consolidated financial statements for the third quarter and first nine months of fiscal year 2019 was not significant.

Deferred Revenue and Performance Obligations

Deferred revenue is comprised mainly of customer advances and deferrals related to license and development arrangements and PCS related to software licensing. The following table shows the changes in deferred revenue during the first nine months of fiscal year 2019:

	October 28, 2018 (In millions)
Balance as of January 28, 2018	\$ 68
Adjustment to retained earnings upon adoption of new revenue standard	(5)
Balance as of January 29, 2018	63
Deferred revenue added during the period	271
Revenue recognized during the period	(214)
Balance as of October 28, 2018	\$ 120

Revenue related to remaining performance obligations represents the amount of contracted license and development arrangements and PCS that has not been recognized. As of October 28, 2018, the amount of our remaining performance obligations that has not been recognized as revenue was \$237 million, of which we expect to recognize approximately 50% as revenue over the next twelve months and the remainder thereafter. This amount excludes the value of remaining performance obligations for contracts with an original expected length of one year or less.

Refer to Note 15 of these Notes to Condensed Consolidated Financial Statements for additional information, including disaggregated revenue disclosures.

NVIDIA CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Note 3 - Stock-Based Compensation

Our stock-based compensation expense is associated with restricted stock units, or RSUs, performance stock units that are based on our corporate financial performance targets, or PSUs, performance stock units that are based on market conditions, or market-based PSUs, and our employee stock purchase plan, or ESPP.

Our Condensed Consolidated Statements of Income include stock-based compensation expense, net of amounts allocated to inventory, as follows:

	Three Months Ended October 28, 2018		Nine Months Ended October 28, 2018	
	2018	2017	2018	2017
	(In millions)			
Cost of revenue	\$5	\$ 6	\$21	\$ 14
Research and development	88	61	237	146
Sales, general and administrative	47	40	142	105
Total	\$140	\$ 107	\$400	\$ 265

Equity Award Activity

The following is a summary of equity award transactions under our equity incentive plans:

		RSUs, PSUs, and Market-based PSUs
	Outstanding	Weighted Average Number of Shares of Grant-Date Fair Value Per Share
	(In millions, except per share data)	
Balances, January 28, 2018	22	\$ 66.72
Granted (1) (2)	4	\$ 262.44
Vested restricted stock	(10)	\$ 47.61
Canceled and forfeited	—	\$ —
Balances, October 28, 2018	16	\$ 127.89

Includes the number of PSUs granted that will be issued and eligible to vest if the maximum corporate financial (1) performance goal for fiscal year 2019 is achieved. Depending on the actual level of the corporate performance achievement at the end of fiscal year 2019, the PSUs issued could be up to 0.3 million shares.

Includes the number of market-based PSUs granted that will be issued and eligible to vest if the maximum goal for (2) total shareholder return, or TSR, over the 3-year measurement period is achieved. Depending on the ranking of our TSR compared to those of the companies comprising the Standard & Poor's 500 Index during that period, the market-based PSUs issued could be up to 45 thousand shares.

Of the total fair value of equity awards granted during the third quarter and first nine months of fiscal year 2019, we estimated that the stock-based compensation expense related to equity awards that are not expected to vest was \$73 million and \$89 million, respectively. Of the total fair value of equity awards granted during the third quarter and first nine months of fiscal year 2018, we estimated that the stock-based compensation expense related to equity awards that

are not expected to vest was \$105 million and \$144 million, respectively.

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

The following summarizes the aggregate unearned stock-based compensation expense and estimated weighted average amortization period as of October 28, 2018 and January 28, 2018:

	October 28, 2018	January 28, 2018
	(In millions)	
Aggregate unearned stock-based compensation expense	\$1,608	\$1,091
Estimated weighted average remaining amortization period (In years)		
RSUs, PSUs, and market-based PSUs	2.4	2.3
ESPP	0.9	0.7

Note 4 – Net Income Per Share

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

	Three Months Ended October 28, 2018		Nine Months Ended October 28, 2018	
	October 29, 2017	October 28, 2017	October 28, 2017	October 29, 2017
	(In millions, except per share data)			
Numerator:				
Net income	\$1,230	\$ 838	\$3,575	\$1,928
Denominator:				
Basic weighted average shares	609	603	608	597
Dilutive impact of outstanding securities:				
Equity awards	16	23	18	24
1.00% Convertible Senior Notes	—	2	—	7
Warrants issued with the 1.00% Convertible Senior Notes	—	—	—	5
Diluted weighted average shares	625	628	626	633
Net income per share:				
Basic (1)	\$2.02	\$ 1.39	\$5.88	\$3.23
Diluted (2)	\$1.97	\$ 1.33	\$5.71	\$3.05
Equity awards excluded from diluted net income per share because their effect would have been anti-dilutive	3	3	4	4

(1) Calculated as net income divided by basic weighted average shares.

(2) Calculated as net income divided by diluted weighted average shares.

The 1.00% Convertible Senior Notes Due 2018, or the Convertible Notes, were included in the calculation of diluted net income per share. The Convertible Notes had a dilutive impact on net income per share as our average stock price for the reporting period exceeded the adjusted conversion price of \$20.02 per share. The warrants associated with our Convertible Notes, or the Warrants, outstanding were also included in the calculation of diluted net income per share. As of October 28, 2018, there were no warrants outstanding.

Refer to Note 12 of these Notes to Condensed Consolidated Financial Statements for additional discussion regarding the Convertible Notes.

NVIDIA CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Note 5 – Income Taxes

We recognized an income tax benefit of \$149 million and \$3 million for the third quarter and first nine months of fiscal year 2019, respectively, and income tax expense of \$58 million and \$189 million for the third quarter and first nine months of fiscal year 2018, respectively. Income tax benefit as a percentage of income before income tax was 13.8% and nominal for the third quarter and first nine months of fiscal year 2019, respectively, and income tax expense as a percentage of income before tax was 6.5% and 8.9% for the third quarter and first nine months of fiscal year 2018, respectively.

The decrease in our effective tax rate for the third quarter and first nine months of fiscal year 2019 as compared to the same periods in the prior fiscal year was primarily due to a decrease in the U.S. statutory tax rate from 35% to 21% as a result of U.S. tax reform, and a \$138 million reduction in our provisional U.S. tax reform transition tax amount in the third quarter of fiscal year 2019, partially offset by a decrease in the impact of tax benefits from stock-based compensation.

Our effective tax rates for the first nine months of fiscal years 2019 and 2018 were nominal and 8.9%, respectively, and were lower than the U.S. federal statutory rates of 21% and 33.9%, for fiscal years 2019 and 2018, respectively, due to income earned in jurisdictions that are subject to taxes lower than the U.S. federal statutory tax rate, tax benefits related to stock-based compensation, the benefit of the U.S. federal research tax credit, and for fiscal year 2019, the reduction in our provisional U.S. tax reform transition tax amount.

In December 2017, the SEC issued guidance that allows companies to record provisional amounts for the tax effects of the Tax Cuts and Job Acts, or TCJA, during a measurement period not to exceed one year. The TCJA was effective in the fourth quarter of fiscal year 2018 and we have recorded provisional amounts based on reasonable estimates for those tax effects. For the third quarter of fiscal year 2019, we reduced our provisional transition tax amount based on proposed regulations issued on August 1, 2018. We expect to complete our analysis of these provisional amounts in our fourth quarter of fiscal year 2019 based on further guidance on accounting interpretations from the FASB and application of the law from the U.S. Department of Treasury, which may further impact our provisional estimates. The TCJA subjects a U.S. corporation to tax on its global intangible low-taxed income, or GILTI. Under U.S. GAAP, we can make an accounting policy election to either treat taxes due on the GILTI as a current period expense or factor such amounts into our measurement of deferred taxes. Given the complexity of the GILTI provisions, we are still evaluating its effects and have not yet determined our accounting policy. We expect to complete our analysis in the fourth quarter of fiscal year 2019. For the third quarter of fiscal year 2019, as we are still evaluating the effects of the GILTI provisions, we have included tax expense related to GILTI for current-year operations in our estimated annual effective tax rate and have not provided for GILTI on deferred items.

For the first nine months of fiscal year 2019, there have been no material changes to our tax years that remain subject to examination by major tax jurisdictions. Additionally, there have been no material changes to our unrecognized tax benefits and any related interest or penalties since the fiscal year ended January 28, 2018, other than the aforementioned reduction in our provisional U.S. tax reform transition tax amount.

While we believe that we have adequately provided for all uncertain tax positions, or tax positions where we believe it is not more-likely-than-not that the position will be sustained upon review, amounts asserted by tax authorities could be greater or less than our accrued position. Accordingly, our provisions on federal, state and foreign tax related matters to be recorded in the future may change as revised estimates are made or the underlying matters are settled or otherwise resolved with the respective tax authorities. As of October 28, 2018, 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 6 - Marketable Securities

Our cash equivalents and marketable securities are classified as “available-for-sale” debt securities.

The following is a summary of cash equivalents and marketable securities as of October 28, 2018 and January 28, 2018:

	October 28, 2018					
	Amortized Cost	Unrealized Gain	Unrealized Loss	Estimated Fair Value	Reported as Cash Equivalents	Marketable Securities
	(In millions)					
Corporate debt securities	\$2,732	\$ 1	\$ (6)	\$ 2,727	\$—	\$ 2,727
Debt securities of United States government agencies	2,140	—	(5)	\$ 2,135	—	2,135
Debt securities issued by the United States Treasury	1,544	—	(2)	1,542	—	1,542
Money market funds	602	—	—	602	602	—
Foreign government bonds	191	—	—	191	—	191
Asset-backed securities	178	—	(2)	176	—	176
Mortgage-backed securities issued by United States government-sponsored enterprises	98	1	—	99	—	99
Total	\$7,485	\$ 2	\$ (15)	\$ 7,472	\$602	\$ 6,870
	January 28, 2018					
	Amortized Cost	Unrealized Gain	Unrealized Loss	Estimated Fair Value	Reported as Cash Equivalents	Marketable Securities
	(In millions)					
Money market funds	\$3,789	\$ —	\$ —	\$ 3,789	\$3,789	\$ —
Corporate debt securities	1,304	—	(9)	1,295	—	1,295
Debt securities of United States government agencies	822	—	(7)	815	—	815
Debt securities issued by the United States Treasury	577	—	(4)	573	—	573
Asset-backed securities	254	—	(2)	252	—	252
Mortgage-backed securities issued by United States government-sponsored enterprises	128	2	—	130	—	130
Foreign government bonds	42	—	(1)	41	—	41
Total	\$6,916	\$ 2	\$ (23)	\$ 6,895	\$3,789	\$ 3,106

The following table provides the breakdown of unrealized losses as of October 28, 2018, aggregated by investment category and length of time that individual securities have been in a continuous loss position:

	Less than 12 Months		12 Months or Greater		Total	
	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses
	(In millions)					
Debt securities issued by United States government agencies	\$1,584	\$ (1)	\$507	\$ (4)	\$2,091	\$ (5)
Debt securities issued by the United States Treasury	1,253	—	289	(2)	1,542	(2)
Corporate debt securities	167	—	794	(6)	961	(6)
Asset-backed securities	—	—	176	(2)	176	(2)

Total \$3,004 \$ (1) \$1,766 \$ (14) \$4,770 \$ (15)

The gross unrealized losses are related to fixed income securities, temporary in nature, and driven primarily by changes in interest rates. We have the intent and ability to hold our investments until maturity. For the third quarter and first nine months of fiscal years 2019 and 2018, there were no other-than-temporary impairment losses and net realized gains were not significant.

The amortized cost and estimated fair value of cash equivalents and marketable securities as of October 28, 2018 and January 28, 2018 are shown below by contractual maturity.

	October 28, 2018		January 28, 2018	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
	(In millions)			
Less than 1 year	\$5,537	\$ 5,524	\$5,381	\$ 5,375
Due in 1 - 5 years	1,923	1,923	1,500	1,485
Mortgage-backed securities issued by United States government-sponsored enterprises not due at a single maturity date	25	25	35	35
Total	\$7,485	\$ 7,472	\$6,916	\$ 6,895

Note 7 – Fair Value of Financial Assets and Liabilities

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. We review fair value hierarchy classification on a quarterly basis. There were no significant transfers between Levels 1 and 2 financial assets and liabilities for the third quarter of fiscal year 2019. Level 3 financial assets and liabilities are based on unobservable inputs to the valuation methodology and include our own data about assumptions market participants would use in pricing the asset or liability based on the best information available under the circumstances.

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

	Pricing Category	Fair Value at October 28, 2018 January 28, 2018 (In millions)	
Assets			
Cash equivalents and marketable securities:			
Corporate debt securities	Level 2	\$2,727	\$ 1,295
Debt securities of United States government agencies	Level 2	\$2,135	\$ 815
Debt securities issued by the United States Treasury	Level 2	\$1,542	\$ 573
Money market funds	Level 1	\$602	\$ 3,789
Foreign government bonds	Level 2	\$191	\$ 41
Asset-backed securities	Level 2	\$176	\$ 252
Mortgage-backed securities issued by United States government-sponsored enterprises	Level 2	\$99	\$ 130
Liabilities			
Current liability:			
1.00% Convertible Senior Notes (1)	Level 2	\$43	\$ 189
Other noncurrent liabilities:			
2.20% Notes Due 2021 (1)	Level 2	\$971	\$ 982
3.20% Notes Due 2026 (1)	Level 2	\$943	\$ 986

These liabilities are carried on our Consolidated Balance Sheets at their original issuance value, net of unamortized (1)debt discount and issuance costs, and are not marked to fair value each period. Refer to Note 12 of these Notes to Condensed Consolidated Financial Statements for additional information.

Note 8 - Amortizable Intangible Assets

The components of our amortizable intangible assets are as follows:

	October 28, 2018			January 28, 2018		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
	(In millions)			(In millions)		
Acquisition-related intangible assets	\$195	\$ (186)	\$ 9	\$195	\$ (180)	\$ 15
Patents and licensed technology	490	(450)	40	469	(432)	37
Total intangible assets	\$685	\$ (636)	\$ 49	\$664	\$ (612)	\$ 52

The increase in gross carrying amount of intangible assets is due to purchases of licensed technology during the first nine months of fiscal year 2019. Amortization expense associated with intangible assets was \$7 million and \$24 million for the third quarter and first nine months of fiscal year 2019, respectively, and \$13 million and \$42 million for the third quarter and first nine months of fiscal year 2018, respectively. Future amortization expense related to the net carrying amount of intangible assets as of October 28, 2018 is estimated to be \$6 million for the remainder of fiscal year 2019, \$21 million in fiscal year 2020, \$12 million in fiscal year 2021, \$5 million in fiscal year 2022, \$4 million in fiscal year 2023, and \$1 million in fiscal year 2024.

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

Note 9 - Balance Sheet Components

Certain balance sheet components are as follows:

	October 28, 2018	January 28, 2018
Inventories:	(In millions)	
Raw materials	\$ 634	\$ 227
Work in-process	259	192
Finished goods	524	377
Total inventories	\$ 1,417	\$ 796

As of October 28, 2018, we had outstanding inventory purchase obligations totaling \$1.56 billion.

	October 28, 2018	January 28, 2018
Accrued and Other Current Liabilities:	(In millions)	
Customer program accruals	\$ 319	\$ 181
Accrued payroll and related expenses	151	172
Deferred revenue (1)	80	53
Taxes payable	40	33
Accrued royalties	19	17
Warranty accrual (2)	18	15
Professional service fees	15	15
Coupon interest on debt obligations	7	20
Other	54	36
Total accrued and other current liabilities	\$ 703	\$ 542

(1) Deferred revenue primarily includes customer advances and deferrals related to license and development arrangements and PCS.

(2) Refer to Note 11 of these Notes to Condensed Consolidated Financial Statements for a discussion regarding warranties.

	October 28, 2018	January 28, 2018
Other Long-Term Liabilities:	(In millions)	
Income tax payable (1)	\$ 469	\$ 559
Deferred revenue (2)	40	15
Deferred income tax liability	23	18
Employee benefits liability	19	12
Deferred rent	17	9
Other	19	19
Total other long-term liabilities	\$ 587	\$ 632

(1) As of October 28, 2018, represents the long-term portion of the one-time transition tax payable of \$337 million, as well as unrecognized tax benefits of \$116 million and related interest and penalties of \$16 million.

(2) Deferred revenue primarily includes deferrals related to license and development arrangements and PCS.

NVIDIA CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Note 10 - Derivative Financial Instruments

We enter into foreign currency forward contracts to mitigate the impact of foreign currency exchange rate movements on our operating expenses. We designate these contracts as cash flow hedges and assess the effectiveness of the hedge relationships on a spot to spot basis. Gains or losses on the contracts are recorded in accumulated other comprehensive income or loss and reclassified to operating expense when the related operating expenses are recognized in earnings or ineffectiveness should occur. The fair value of the contracts was not significant as of October 28, 2018 and January 28, 2018.

We also enter into foreign currency forward contracts to mitigate the impact of foreign currency movements on monetary assets and liabilities that are denominated in currencies other than U.S. dollar. These forward contracts were not designated for hedge accounting treatment. Therefore, the change in fair value of these contracts is recorded in other income or expense and offsets the change in fair value of the hedged foreign currency denominated monetary assets and liabilities, which is also recorded in other income or expense.

The table below presents the notional value of our foreign currency forward contracts outstanding as of October 28, 2018 and January 28, 2018:

	October 28, 2018	January 28, 2018
	(In millions)	
Designated as cash flow hedges	\$403	\$ 104
Not designated for hedge accounting	\$93	\$ 94

As of October 28, 2018, all designated foreign currency forward contracts mature within eighteen months. The expected realized gains and losses deferred into accumulated other comprehensive income (loss) related to foreign currency forward contracts within the next twelve months was not significant.

During the third quarter and first nine months of fiscal years 2019 and 2018, the impact of derivative financial instruments designated for hedge accounting treatment on other comprehensive income or loss was not significant and all such instruments were determined to be highly effective. Therefore, there were no gains or losses associated with ineffectiveness.

Note 11 - Guarantees

U.S. GAAP requires that upon issuance of a guarantee, the guarantor must recognize a liability for the fair value of the obligation it assumes under that guarantee.

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 returns and estimated product warranty liabilities was \$18 million and \$15 million as of October 28, 2018 and January 28, 2018, respectively.

In connection with certain agreements that we have entered in the past, we have provided indemnities to cover the indemnified party for matters such as tax, product, and employee liabilities. We have 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. We have not recorded any liability in our Condensed Consolidated Financial Statements for such indemnifications.

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

Note 12 - Debt

Long-Term Debt

2.20% Notes Due 2021 and 3.20% Notes Due 2026

In fiscal year 2017, we issued \$1.00 billion of the 2.20% Notes Due 2021, and \$1.00 billion of the 3.20% Notes Due 2026, or collectively, the Notes. Interest on the Notes is payable on March 16 and September 16 of each year, beginning on March 16, 2017. Upon 30 days' notice to holders of the Notes, we may redeem the Notes for cash prior to maturity, at redemption prices that include accrued and unpaid interest, if any, and a make-whole premium. However, no make-whole premium will be paid for redemptions of the Notes Due 2021 on or after August 16, 2021, or for redemptions of the Notes Due 2026 on or after June 16, 2026. The net proceeds from the Notes were \$1.98 billion, after deducting debt discount and issuance costs.

The Notes are our unsecured senior obligations and rank equally in right of payment with all existing and future unsecured and unsubordinated indebtedness. The Notes are structurally subordinated to the liabilities of our subsidiaries and are effectively subordinated to any secured indebtedness to the extent of the value of the assets securing such indebtedness. All existing and future liabilities of our subsidiaries will be effectively senior to the Notes.

The carrying value of the Notes and the associated interest rates were as follows:

	Expected Remaining Term (years)	Effective Interest Rate	October 28, 2018	January 28, 2018
			(In millions)	
2.20% Notes Due 2021	2.9	2.38%	\$1,000	\$ 1,000
3.20% Notes Due 2026	7.9	3.31%	1,000	1,000
Unamortized debt discount and issuance costs			(13)	(15)
Net carrying amount			\$1,987	\$ 1,985

Convertible Debt

1.00% Convertible Senior Notes Due 2018

In fiscal year 2014, we issued \$1.50 billion of 1.00% Convertible Senior Notes due 2018. The Convertible Notes will mature on December 1, 2018 and we had \$3 million in principal amount outstanding as of October 28, 2018. Effective August 1, 2018, holders may convert all or any portion of their Convertible Notes before the close of business on the second scheduled trading day immediately preceding the maturity date of December 1, 2018 regardless of conversion conditions.

During the third quarter of fiscal year 2019, we paid cash to settle an aggregate of \$11 million in principal amount of the Convertible Notes and issued 485 thousand shares of our common stock for the excess conversion value. The related loss on early conversions was not significant. Based on the closing price of our common stock of \$198.29 on the last trading day of the third quarter of fiscal year 2019, the if-converted value of the remaining outstanding Convertible Notes exceeded their principal amount by approximately \$31 million. As of October 28, 2018, the conversion rate was 49.95 shares of common stock per \$1,000 principal amount of the Convertible Notes.

Note Hedges

Concurrently with the issuance of the Convertible Notes, we entered into the Note Hedges. The Note Hedges have an adjusted strike price of \$20.02 per share and allow us to receive shares of our common stock and/or cash related to the excess conversion value that we would deliver and/or pay, respectively, to the holders of the Convertible Notes upon conversion. Through October 28, 2018, we had received 56 million shares of our common stock from the exercise of a portion of the Note Hedges related to the settlement of \$1.50 billion in principal amount of the Convertible Notes.

NVIDIA CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Revolving Credit Facility

We have a Credit Agreement under which we may borrow up to \$575 million for general corporate purposes and can obtain revolving loan commitments up to \$425 million. As of October 28, 2018, we had not borrowed any amounts under this agreement.

Commercial Paper

We have a \$575 million commercial paper program to support general corporate purposes. As of October 28, 2018, we had not issued any commercial paper.

Note 13 - Commitments and Contingencies

Litigation

Polaris Innovations Limited

On May 16, 2016, Polaris Innovations Limited, or Polaris, a non-practicing entity and wholly-owned subsidiary of Quarterhill Inc. (formerly WiLAN Inc.), filed a complaint against NVIDIA for patent infringement in the United States District Court for the Western District of Texas. Polaris alleges that NVIDIA has infringed and is continuing to infringe six U.S. patents relating to the control of dynamic random-access memory, or DRAM. The complaint seeks unspecified monetary damages, enhanced damages, interest, fees, expenses, and costs against NVIDIA. On September 14, 2016, NVIDIA answered the Polaris Complaint and asserted various defenses including non-infringement and invalidity of the six Polaris patents.

On December 5, 2016, the Texas Court granted NVIDIA's motion to transfer and ordered the case transferred to the Northern District of California.

Between December 7, 2016 and July 25, 2017, NVIDIA filed multiple petitions for inter partes review, or IPR, at the United States Patent and Trademark Office, or USPTO, challenging the validity of each of the patents asserted by Polaris in the U.S. litigation. The USPTO instituted IPRs for four U.S. patents and declined to institute IPRs on two U.S. patents. The USPTO issued a Final Written Decision on the IPR relating to one of the patents on June 19, 2018, finding claims 1-23 and 28 unpatentable but that claims 24-27 were not proved unpatentable.

On June 15, 2017, the California Court granted NVIDIA's motion to stay the district court litigation pending resolution of the petitions for IPR. The California Court has not set a trial date.

On December 30, 2016, Polaris filed a complaint against NVIDIA for patent infringement in the Regional Court of Düsseldorf, Germany. Polaris alleges that NVIDIA has infringed and is continuing to infringe three patents relating to control of DRAM. On July 14, 2017, NVIDIA filed defenses to the infringement allegations including non-infringement with respect to each of the three asserted patents. On September 3, 2018, NVIDIA filed a rejoinder with additional noninfringement arguments.

An oral hearing is scheduled for February 21, 2019.

Between March 31, 2017 and June 12, 2017, NVIDIA filed nullity actions with the German Patent Court challenging the validity of each of the patents asserted by Polaris in the German litigation.

ZiiLabs 1 Patents Lawsuit

On October 2, 2017, ZiiLabs Inc., Ltd., or ZiiLabs, a non-practicing entity, filed a complaint in the United States District Court for the District of Delaware alleging that NVIDIA has infringed and is continuing to infringe four U.S. patents relating to GPUs, or the ZiiLabs 1 Patents. ZiiLabs is a Bermuda corporation and a wholly-owned subsidiary of Creative Technology Asia Limited, a Hong Kong company which is itself a wholly-owned subsidiary of Creative Technology Ltd., a publicly traded Singapore company. The complaint seeks unspecified monetary damages, enhanced damages, interest, costs, and fees against NVIDIA and an injunction against further direct or direct infringement of the ZiiLabs 1 Patents. On November 27, 2017, NVIDIA answered the ZiiLabs complaint and asserted various defenses including non-infringement and invalidity of the ZiiLabs 1 Patents.

On January 10, 2018, ZiiLabs filed a first amended complaint asserting infringement of a fifth U.S. patent.

On February 22, 2018, the Delaware Court stayed the ZiiLabs 1 case pending the resolution of the ITC investigation over the ZiiLabs 2 patents.

NVIDIA CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

ZiiLabs 2 Patents Lawsuits

On December 27, 2017, ZiiLabs filed a second complaint in the United States District Court for the District of Delaware alleging that NVIDIA has infringed four additional U.S. patents, or the ZiiLabs 2 Patents. The second complaint also seeks unspecified monetary damages, enhanced damages, interest, costs, and fees against NVIDIA and an injunction against further direct or direct infringement of the ZiiLabs 2 Patents.

On February 22, 2018, the Delaware Court stayed the district court action on the ZiiLabs 2 patents pending the resolution of the ITC Investigation over the ZiiLabs 2 patents.

On December 29, 2017, ZiiLabs filed a request with the U.S. International Trade Commission, or USITC, to commence an Investigation pursuant to Section 337 of the Tariff Act of 1930 relating to the unlawful importation of certain graphics processors and products containing the same. ZiiLabs alleges that the unlawful importation results from the infringement of the ZiiLabs 2 Patents by products from respondents NVIDIA, ASUSTeK Computer Inc., ASUS Computer International, EVGA Corporation, Gigabyte Technology Co., Ltd., G.B.T. Inc., Micro-Star International Co., Ltd., MSI Computer Corp., Nintendo Co., Ltd., Nintendo of America Inc., PNY Technologies Inc., Zotac International (MCO) Ltd., and Zotac USA Inc.

On February 28, 2018, NVIDIA and the other respondents answered the ITC complaint and asserted various defenses including non-infringement and invalidity of the four asserted ZiiLabs 2 patents.

On May 10, 2018, the Administrative Law Judge presiding over the investigation issued an Initial Determination terminating the investigation with respect to one of the patents. On July 17, 2018, the USITC affirmed this decision on modified grounds.

On October 18, 2018, the Administrative Law Judge currently presiding over the investigation issued an order construing certain claims of the three remaining patents in the investigation.

The hearing in the investigation is currently scheduled to begin January 25, 2019. The target date for completion of the investigation is September 9, 2019.

Accounting for Loss Contingencies

While there can be no assurance of favorable outcomes, we believe the claims made by the other parties in the above ongoing matters are without merit and we intend to vigorously defend the actions. As of October 28, 2018, 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 loss or 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 14 - Shareholders' Equity

Capital Return Program

Beginning August 2004, our Board of Directors authorized us to repurchase our stock.

During the third quarter and first nine months of fiscal year 2019, we repurchased a total of 1 million shares and 4 million shares, respectively, for \$200 million and \$855 million, respectively. During the third quarter and first nine months of fiscal year 2019, we also paid \$91 million and \$273 million, respectively, in cash dividends to our shareholders.

In November 2018, we declared an increase in our quarterly cash dividend to \$0.16 per share from \$0.15 per share, to be paid with our next quarterly cash dividend on December 21, 2018, to all shareholders of record on November 30, 2018.

Through October 28, 2018, we have repurchased an aggregate of 255 million shares under our share repurchase program for a total cost of \$6.36 billion. All shares delivered from these repurchases have been placed into treasury stock. In November 2018, our board of directors authorized an additional \$7.00 billion under our share repurchase

program. As of November 5, 2018, we were authorized, subject to certain specifications, to repurchase additional shares of our common stock up to \$7.94 billion through December 2022.

Preferred Stock

As of October 28, 2018 and January 28, 2018, there were no shares of preferred stock outstanding.

NVIDIA CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Common Stock

We are authorized to issue up to 2.00 billion shares of our common stock at \$0.001 per share par value.

Note 15 - Segment Information

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

We report our business in two primary reportable segments - the GPU business and the Tegra Processor business - based on a single underlying architecture.

While our GPU and CUDA architecture is unified, our GPU product brands are aimed at specialized markets including GeForce for gamers; Quadro for designers; Tesla and DGX for artificial intelligence, or AI, data scientists and big data researchers; and GRID for cloud-based visual computing users. Our Tegra brand integrates an entire computer onto a single chip, and incorporates GPUs and multi-core CPUs to drive supercomputing for autonomous robots, drones, and cars, as well as for consoles and mobile gaming and entertainment devices.

Under the single unifying architecture for our GPU and Tegra Processors, we leverage 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 reportable segments, our CODM assigns 100% of those expenses to the reportable segment that benefits the most.

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 primarily patent licensing revenue and the expenses include stock-based compensation expense, corporate infrastructure and support costs, acquisition-related costs, legal settlement costs, contributions, restructuring and other charges, product warranty charge, 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 reportable segment basis. Reportable segments do not record intersegment revenue, and, accordingly, there is none to be reported. The accounting policies for segment reporting are the same as for our consolidated financial statements. The table below presents details of our reportable segments and the "All Other" category.

NVIDIA CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

	GPU	Tegra Processor	All Other	Consolidated
	(In millions)			

Three Months Ended October 28, 2018

Revenue	\$2,774	\$ 407	\$—	\$ 3,181
Depreciation and amortization expense	\$51	\$ 13	\$4	\$ 68
Operating income (loss)	\$1,214	\$ 72	\$(228)	\$ 1,058

Three Months Ended October 29, 2017

Revenue	\$2,217	\$ 419	\$—	\$ 2,636
Depreciation and amortization expense	\$32	\$ 9	\$9	\$ 50
Operating income (loss)	\$978	\$ 88	\$(171)	\$ 895

Nine Months Ended October 28, 2018

Revenue	\$8,195	\$ 1,316	\$—	\$ 9,511
Depreciation and amortization expense	\$134	\$ 35	\$15	\$ 184
Operating income (loss)	\$3,867	\$ 266	\$(623)	\$ 3,510

Nine Months Ended October 29, 2017

Revenue	\$5,676	\$ 1,084	\$43	\$ 6,803
Depreciation and amortization expense	\$88	\$ 27	\$30	\$ 145
Operating income (loss)	\$2,342	\$ 206	\$(411)	\$ 2,137

Three Months Ended		Nine Months Ended	
October 28, 2018	October 29, 2017	October 28, 2018	October 29, 2017
(In millions)			

Reconciling items included in "All Other" category:

Unallocated revenue	\$—	\$ —	\$—	\$ 43
Stock-based compensation expense	(140)	(107)	(400)	(265)
Unallocated cost of revenue and operating expenses	(76)	(61)	(205)	(176)
Legal settlement costs	(15)	—	(17)	—
Acquisition-related costs	(1)	(3)	(5)	(11)
Restructuring and other	4	—	4	—
Contributions	—	—	—	(2)
Total	\$(228)	\$ (171)	\$(623)	\$ (411)

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 table summarizes information pertaining to our revenue from customers based on the invoicing address by geographic regions:

	Three Months Ended October 28, 2018		Nine Months Ended October 29, 2018	
	2017		2017	
(In millions)				
Revenue:				
Taiwan	\$929	\$864	\$2,739	\$2,140
Other Asia Pacific	742	612	2,001	1,409
China (including Hong Kong)	704	515	2,218	1,325
United States	407	263	1,254	894
Europe	230	195	699	555
Other Americas	169	187	600	480
Total revenue	\$3,181	\$2,636	\$9,511	\$6,803

The following table summarizes information pertaining to our revenue by each of the specialized markets we serve:

	Three Months Ended October 28, 2018		Nine Months Ended October 29, 2018	
	2017		2017	
(In millions)				
Revenue:				
Gaming	\$1,764	\$1,561	\$5,292	\$3,774
Professional Visualization	305	239	837	679
Datacenter	792	501	2,253	1,326
Automotive	172	144	478	426
OEM & IP	148	191	651	598
Total revenue	\$3,181	\$2,636	\$9,511	\$6,803

No customer represented 10% or more of total revenue for the third quarter and first nine months of fiscal years 2019 and 2018.

Accounts receivable from significant customers, those representing more than 10% of total accounts receivable, aggregated approximately 14% of our accounts receivable balance from one customer as of October 28, 2018, and approximately 28% of our accounts receivable balance from two customers as of January 28, 2018.

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

NVIDIA, the NVIDIA logo, GeForce, Quadro, Tegra, Tesla, G-SYNC, Jetson, NVIDIA DGX, NVIDIA DRIVE, NVIDIA DRIVE AGX Xavier, NVIDIA DRIVE Constellation, NVIDIA DRIVE Pegasus, NVIDIA DRIVE Sim, NVIDIA GRID, NVIDIA Turing, NVSwitch, Pascal, TensorRT and Xavier 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 28, 2018 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 and Our Businesses

Starting with a focus on PC graphics, NVIDIA invented the GPU to solve some of the most complex problems in computer science. We have extended our focus in recent years to the revolutionary field of AI. Fueled by the sustained demand for better 3D graphics and the scale of the gaming market, NVIDIA has evolved the GPU into a computer brain at the intersection of virtual reality, high performance computing, or HPC, and artificial intelligence, or AI. Our two reportable segments - GPU and Tegra Processor - are based on a single underlying architecture. From our proprietary processors, we have created platforms that address four large markets where our expertise is critical: Gaming, Professional Visualization, Datacenter, and Automotive.

While our GPU and CUDA architecture is unified, our GPU product brands are aimed at specialized markets including GeForce for gamers; Quadro for designers; Tesla and DGX for AI data scientists and big data researchers; and GRID for cloud-based visual computing users. Our Tegra brand integrates an entire computer onto a single chip, and incorporates GPUs and multi-core CPUs to drive supercomputing for autonomous robots, drones, and cars, as well as for consoles and mobile gaming and entertainment devices.

Headquartered in Santa Clara, California, NVIDIA was incorporated in California in April 1993 and reincorporated in Delaware in April 1998.

Recent Developments, Future Objectives and Challenges

Third Quarter of Fiscal Year 2019 Summary

	Three Months Ended						Quarter-over-Quarter Change	Year-over-Year Change		
	October 28, 2018		July 29, 2018		October 29, 2017					
	(\$ in millions, except per share data)									
Revenue	\$3,181		\$3,123		\$2,636		2	%	21	%
Gross margin	60.4	%	63.3	%	59.5	%	(290) bps			90 bps
Operating expenses	\$863		\$818		\$674		6	%	28	%
Income from operations	\$1,058		\$1,157		\$895		(9)	%	18	%
Net income	\$1,230		\$1,101		\$838		12	%	47	%
Net income per diluted share	\$1.97		\$1.76		\$1.33		12	%	48	%

Revenue for the third quarter of fiscal year 2019 increased 21% year over year and increased 2% sequentially. GPU business revenue was \$2.77 billion, up 25% from a year earlier and up 4% sequentially, reflecting growth in professional visualization, datacenter, and gaming GPUs. Tegra Processor business revenue - which includes automotive, SOC modules for the Nintendo Switch gaming console, and other embedded edge AI platforms - was \$407 million, down 3% from a year ago and down 13% sequentially.

Gaming revenue was \$1.76 billion, up 13% from a year ago driven by growth in gaming GPUs, and down 2% sequentially as gaming GPU growth was more than offset by a seasonal decline in SOC modules for Nintendo Switch. Gaming GPU growth was fueled by Turing-based GPUs for desktops and by gaming notebooks based on our Max-Q technology.

Professional visualization revenue was \$305 million, up 28% from a year earlier and up 9% sequentially driven by strength across both desktop and mobile workstation products.

Datacenter revenue was \$792 million, up 58% from a year ago and up 4% sequentially, led by strong sales of our Volta architecture-based products, including NVIDIA Tesla V100 and DGX systems, with contribution from the new Turing T4 Cloud GPU.

Automotive revenue of \$172 million was up 19% from a year earlier and up 7% sequentially, incorporating infotainment modules, production DRIVE PX platforms, and development agreements with automotive companies.

OEM and IP revenue was \$148 million, down 23% from a year ago, due to the absence of cryptocurrency mining.

Gross margin for the third quarter of fiscal year 2019 was 60.4%. Gross margins increased from a year ago - reflecting our continued shift toward higher-value platforms, which more than offset the current quarter impact of \$57 million in charges related to prior architecture components and chips following the sharp fall-off in cryptocurrency mining demand.

Operating expenses for the third quarter of fiscal year 2019 were \$863 million, up 28% from a year earlier and up 6% sequentially, reflecting increased headcount and related costs for our growth initiatives - including gaming, professional visualization, AI, and autonomous driving.

Income from operations for the third quarter of fiscal year 2019 was \$1.06 billion, up 18% from a year earlier and down 9% sequentially. Net income and net income per diluted share for the third quarter of fiscal year 2019 were \$1.23 billion and \$1.97, respectively, up 47% and 48%, respectively, from a year earlier, fueled by strong revenue growth and improved gross margin.

We previously announced our plan to return \$1.25 billion to shareholders in fiscal year 2019. During the first nine months of fiscal year 2019, we returned \$1.13 billion to shareholders through a combination of \$855 million in share repurchases and \$273 million in cash dividends. In November 2018, our board of directors authorized an additional \$7.00 billion under our share repurchase program for a total of \$7.94 billion available through the end of December 2022. We announced a 7% increase in our quarterly cash dividend to \$0.16 per share from \$0.15 per share, to be paid with our next quarterly cash dividend on December 21, 2018, to all shareholders of record on November 30, 2018. We intend to return an additional \$3.00 billion to shareholders by the end of fiscal year 2020, which may begin in the fourth quarter of fiscal year 2019.

Cash, cash equivalents and marketable securities were \$7.59 billion as of October 28, 2018, compared with \$7.94 billion at the end of the prior quarter. The decrease was primarily related to third quarter stock repurchases, dividends and taxes paid related to restricted stock units, partially offset by operating income and changes in working capital.

GPU Business

During the third quarter of fiscal year 2019, we introduced RAPIDS, an open-source GPU-acceleration platform for data science and machine learning; launched the NVIDIA T4 cloud GPU and NVIDIA TensorRT Hyperscale Inference Platform to deliver advanced acceleration in hyperscale datacenters; launched the NVIDIA RTX Server; released the GeForce RTX series, the first gaming GPUs based on the Turing architecture; and unveiled the Quadro RTX series, which is designed to revolutionize the workflow of designers and artists on the desktop.

During the second quarter of fiscal year 2019, we marked the launch of the Summit supercomputer at Oak Ridge National Laboratory, powered by NVIDIA Volta Tensor Core GPUs; introduced NVIDIA HGX-2, a unified computing platform for both AI and high performance computing; announced that five of the world's seven fastest supercomputers are powered by NVIDIA GPUs; introduced the NVIDIA HGX-2 platform for both AI and HPC; and launched AIRI Mini with Pure Storage and ONTAP AI with NetApp for implementing and scaling deep learning. We also announced a number of Max-Q GeForce gaming notebook designs offered by major OEMs, enabling high-end performance for thin and light notebooks; disclosed that next-generation NVIDIA G-SYNC HDR displays are being shipped, enabling stutter-free gaming; and announced NVIDIA's role in VirtualLink, a consortium establishing an industry standard to enable next-gen VR headsets to connect with PCs using a single, high-bandwidth USB Type-C connector. In August 2018, we unveiled our first Turing-based GPUs -- NVIDIA Quadro RTX 8000, RTX 6000 and RTX 5000 -- which we believe will revolutionize the work of millions of designers and artists; and introduced the NVIDIA RTX Server, a ray-tracing global illumination rendering server for render farms.

During the first quarter of fiscal year 2019, we announced NVIDIA RTX, a computer graphics technology that produces movie-quality images in real time. We also unveiled advances to our deep learning computing platform - including NVIDIA Tesla V100 GPUs with 32GB memory, NVIDIA NVSwitch GPU interconnect fabric, NVIDIA DGX-2, and TensorRT 4, the latest version of the TensorRT AI inference accelerator software. In addition, we announced GPU acceleration for Kubernetes to facilitate enterprise inference deployment on multi-cloud GPU clusters and the Quadro GV100 GPU with RTX technology, making real-time ray tracing possible on professional design and content creation applications.

Tegra Processor Business

During the third quarter of fiscal year 2019, we announced NVIDIA's first level-2 autopilot design wins with Toyota, Volvo Cars and Isuzu Motors; announced the start of production of our Xavier single-chip autopilot SOC and started shipping the NVIDIA DRIVE AGX Xavier developer kit; and announced that Yamaha Motor Co. will use NVIDIA to power its upcoming lineup of autonomous machines.

During the second quarter of fiscal year 2019, we announced that Daimler and Bosch have selected NVIDIA's DRIVE platform to bring automated and driverless vehicles to city streets, with pilot testing set to begin next year in Silicon Valley.

During the first quarter of fiscal year 2019, we introduced the NVIDIA DRIVE Constellation server with DRIVE Sim software, a complete system to safely test drive autonomous vehicles over billions of miles in virtual reality by leveraging NVIDIA GPUs and NVIDIA DRIVE Pegasus.

Financial Information by Business Segment and Geographic Data

Refer to Note 15 of the Notes to Condensed Consolidated Financial Statements for disclosure regarding segment information.

Results of Operations

The following table sets forth, for the periods indicated, certain items in our Condensed Consolidated Statements of Income expressed as a percentage of revenue.

	Three Months Ended		Nine Months Ended	
	October 28, 2018		October 28, 2017	
	2018	2017	2018	2017
Revenue	100.0 %	100.0 %	100.0 %	100.0 %
Cost of revenue	39.6	40.5	37.3	40.9
Gross profit	60.4	59.5	62.7	59.1
Operating expenses				
Research and development	19.0	17.5	18.2	19.0
Sales, general and administrative	8.1	8.0	7.6	8.7
Total operating expenses	27.1	25.5	25.8	27.7
Income from operations	33.3	34.0	36.9	31.4
Interest income	1.2	0.6	1.0	0.7
Interest expense	(0.5)	(0.6)	(0.5)	(0.7)
Other, net	—	—	0.1	(0.3)
Total other income (expense)	0.7	—	0.6	(0.3)
Income before income tax	34.0	34.0	37.5	31.1
Income tax expense (benefit)	(4.7)	2.2	—	2.8
Net income	38.7 %	31.8 %	37.5 %	28.3 %

Revenue

Revenue by Reportable Segments

	Three Months Ended				Nine Months Ended			
	October 28, 2018		October 28, 2017		October 28, 2018		October 28, 2017	
	\$	%	\$	%	\$	%	\$	%
	2018	2017	2018	2017	2018	2017	2018	2017
	(\$ in millions)							
GPU	\$2,774	\$ 2,217	\$ 557	25 %	\$8,195	\$ 5,676	\$2,519	44 %
Tegra Processor	407	419	(12)	(3)%	1,316	1,084	232	21 %
All Other	—	—	—	— %	—	43	(43)	(100)%
Total	\$3,181	\$ 2,636	\$ 545	21 %	\$9,511	\$ 6,803	\$2,708	40 %