NVIDIA CORP
Form 10-Q
August 22, 2007

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 29, 2007

OR

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

Commission file number: 0-23985

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

Delaware	**94-3177549**
(State or Other Jurisdiction of Incorporation or Organization)	**(I.R.S. Employer Identification No.)**

2701 San Tomas Expressway
Santa Clara, California 95050
(408) 486-2000
(Address, including zip code, and telephone number, including area code, of principal executive offices)

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 o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of “accelerated filer and large accelerated filer” in Rule 12b-2 of the Exchange Act. (Check one):
x Large accelerated filer o Accelerated filer o Non-accelerated filer

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

The number of shares of common stock, $.001 par value, outstanding as of August 15, 2007 was 365,874,872.

NVIDIA CORPORATION
FORM 10-Q
FOR THE QUARTER ENDED JULY 29, 2007

TABLE OF CONTENTS

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 29, 2007	July 30, 2006	July 29, 2007	July 30, 2006
Revenue	$ 935,253	$ 687,519	$ 1,779,533	$ 1,369,326
Cost of revenue	511,261	395,391	975,403	788,525
Gross profit	423,992	292,128	804,130	580,801
Operating expenses:				
Research and development	157,952	127,257	316,273	250,459
Sales, general and administrative	81,280	69,055	161,851	133,017
Total operating expenses	239,232	196,312	478,124	383,476
Operating income	184,760	95,816	326,006	197,325
Interest income	15,625	8,818	28,833	17,626
Interest expense	—	(6)	—	(7)
Other income (expense), net	466	(106)	(199)	(350)
Income before income tax expense	200,851	104,522	354,640	214,594
Income tax expense	28,119	17,769	49,649	36,481
Income before change in accounting principle	172,732	86,753	304,991	178,113
Cumulative effect of change in accounting principle	—	—	—	704
Net income	$ 172,732	86,753	$ 304,991	$ 178,817
Basic net income per share:				
Prior to cumulative effect of change in accounting principle	$ 0.47	0.25	$ 0.84	$ 0.51
Cumulative effect of change in accounting principle	—	—	—	—
Basic net income per share	$ 0.47	0.25	$ 0.84	$ 0.51
Shares used in basic per share computation	364,870	350,244	362,850	349,090
Diluted net income per share:				
Prior to cumulative effect of change in accounting principle	$ 0.43	0.22	$ 0.76	$ 0.46
Cumulative effect of change in accounting principle	—	—	—	—
Diluted net income per share	$ 0.43	0.22	$ 0.76	$ 0.46

Shares used in diluted per share computation	402,553	385,589	400,638	387,485

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	July 29, 2007	January 28, 2007
ASSETS		
Current assets:		
Cash and cash equivalents	$ 914,745	$ 544,414
Marketable securities	656,818	573,436
Accounts receivable, net	508,435	518,680
Inventories	276,305	354,680
Prepaid expenses and other current assets	41,102	40,560
Total current assets	2,397,405	2,031,770
Property and equipment, net	264,832	260,828
Goodwill	293,383	301,425
Intangible assets, net	54,735	45,511
Deposits and other assets	25,912	35,729
Total assets	$ 3,036,267	$ 2,675,263
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 323,381	$ 272,075
Accrued liabilities	357,417	366,732
Total current liabilities	680,798	638,807
Deferred tax and other long-term liabilities	95,191	29,537
Commitments and contingencies - see Note 13		
Stockholders' equity:		
Preferred stock	—	—
Common stock	402	388
Additional paid-in capital	1,493,240	1,295,650
Treasury stock, at cost	(736,506)	(487,120)
Accumulated other comprehensive income, net	1,586	1,436
Retained earnings	1,501,556	1,196,565
Total stockholders' equity	2,260,278	2,006,919
Total liabilities and stockholders' equity	$ 3,036,267	$ 2,675,263

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 29, 2007	Six Months Ended July 30, 2006
Cash flows from operating activities:		
Net income	$ 304,991	$ 178,817
Adjustments to reconcile net income to net cash provided by operating activities:		
Stock-based compensation	66,865	51,953
Depreciation and amortization	63,226	48,239
Deferred income taxes	39,277	28,237
Excess tax benefits from stock-based compensation	—	(14,362)
Cumulative effect of change in accounting principle	—	(704)
In-process research and development	—	602
Other	185	51
Changes in operating assets and liabilities, net of acquisitions:		
Accounts receivable	10,950	(132,259)
Inventories	78,489	(118,315)
Prepaid expenses and other current assets	(842)	(8,883)
Deposits and other assets	2,437	(4,399)
Accounts payable	50,685	32,508
Accrued liabilities	21,337	5,913
Net cash provided by operating activities	637,600	67,398
Cash flows from investing activities:		
Purchases of marketable securities	(455,909)	(159,034)
Sales and maturities of marketable securities	374,661	94,293
Purchases of property and equipment and intangible assets	(67,703)	(40,778)
Acquisition of businesses, net of cash and cash equivalents	—	(67,026)
Net cash used in investing activities	(148,951)	(172,545)
Cash flows from financing activities:		
Common stock issued under employee stock plans	131,068	102,430
Stock repurchase	(249,386)	(174,978)
Excess tax benefits from stock-based compensation	—	14,362
Net cash used in financing activities	(118,318)	(58,186)
Change in cash and cash equivalents	370,331	(163,333)
Cash and cash equivalents at beginning of period	544,414	551,756
Cash and cash equivalents at end of period	$ 914,745	$ 388,423
Supplemental disclosures of cash flow information:		
Cash paid for income taxes, net	$ 3,505	$ 24,645
Other non-cash activities:		
Unrealized losses from marketable securities	$ (564)	$ 697

Assets acquired by assuming related liabilities	**$**	**—**	$	13,506
Deferred compensation	**$**	**—**	$	3,604

See accompanying Notes to Condensed Consolidated Financial Statements

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

Note 1 - Summary of Significant Accounting Policies

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements were prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Article 10 of Securities and Exchange Commission, or SEC, Regulation S-X. In the opinion of management, all adjustments, consisting only of normal recurring adjustments except as otherwise noted, considered necessary for a fair statement of results of operations and financial position have been included. The results for the interim periods presented are not necessarily indicative of the results expected for any future period. The following information should be read in conjunction with the audited financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended January 28, 2007.

Fiscal year

We operate on a 52 or 53-week year, ending on the Sunday nearest January 31. The first and second quarters of fiscal years 2008 and 2007 were all 13-week quarters.

Reclassifications

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

Principles of Consolidation

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

Use of Estimates

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

Revenue Recognition

Product Revenue

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

Our policy on sales to distributors with rights of return is to defer recognition of revenue and related cost of revenue until the distributors resell the product.

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

We record estimated reductions to revenue for customer programs at the time revenue is recognized. Our customer programs primarily involve rebates, which are designed to serve as sales incentives to resellers of our products in various target markets. We account for rebates in accordance with Emerging Issues Task Force Issue 01-09, or EITF 01-09, *Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor's Products)* and, as such, we accrue for 100% of the potential rebates and do not apply a breakage factor. Rebates typically expire six months from the date of the original sale, unless we reasonably believe that the customer intends to claim the rebate. Unclaimed rebates are reversed to revenue upon expiration of the rebate.

Our customer programs also include marketing development funds, or MDFs. We account for MDFs as either a reduction of revenue or an operating expense in accordance with EITF 01-09. MDFs represent monies paid to retailers, system builders, original equipment manufacturers, or OEMs, distributors and add-in card partners that are earmarked for market segment development and expansion and typically are designed to support our partners' activities while also promoting NVIDIA products. Depending on market conditions, we may take actions to increase amounts offered under customer programs, possibly resulting in an incremental reduction of revenue at the time such programs are offered.

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

License and Development Revenue

For license arrangements that require significant customization of our intellectual property components, we generally recognize this license revenue using the percentage-of-completion method of accounting over the period that services are performed. For all license and service arrangements accounted for under the percentage-of-completion method, we determine progress to completion based on actual direct labor hours incurred to date as a percentage of the estimated total direct labor hours required to complete the project. We periodically evaluate the actual status of each project to ensure that the estimates to complete each contract remain accurate. A provision for estimated losses on contracts is made in the period in which the loss becomes probable and can be reasonably estimated. To date, we have not recorded any such losses. Costs incurred in advance of revenue recognized are recorded as deferred costs on uncompleted contracts. If the amount billed exceeds the amount of revenue recognized, the excess amount is recorded as deferred revenue. Revenue recognized in any period is dependent on our progress toward completion of projects in progress. Significant management judgment and discretion are used to estimate total direct labor hours. Any changes in or deviations from these estimates could have a material effect on the amount of revenue we recognize in any period.

Recently Issued Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board, or FASB, issued Statement of Financial Accounting Standards No. 157, or SFAS No. 157, *Fair Value Measurements*. SFAS No. 157 establishes a framework for measuring fair value and expands disclosures about fair value measurements. The changes to current practice resulting from the application of SFAS No. 157 relate to the definition of fair value, the methods used to measure fair value, and the expanded disclosures about fair value measurements. We are required to adopt the provisions of SFAS No. 157 beginning with our fiscal quarter ending April 27, 2008. We are currently evaluating the impact that SFAS No. 157 will have on our consolidated financial position, results of operations and cash flows.

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, or SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities.* SFAS No. 159 permits companies to choose to measure certain financial instruments and certain other items at fair value. The standard requires that unrealized gains and losses on items for which the fair value option has been elected be reported in earnings. We are required to adopt the provisions of SFAS No. 159 beginning with our fiscal quarter ending April 27, 2008, although earlier adoption is permitted. We are currently evaluating the impact that SFAS No. 159 will have on our consolidated financial position, results of operations and cash flows.

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

Adoption of FASB Interpretation No. 48

On January 29, 2007, we adopted FASB Interpretation No. 48, or FIN 48, *Accounting for Uncertainty in Income Taxes,* issued in July 2006. FIN 48 applies to all tax positions related to income taxes subject to FASB Statement of Financial Accounting Standards No. 109, or SFAS No. 109, *Accounting for Income Taxes*. Under FIN 48 we recognize the benefit from a tax position only if it is more-likely-than-not that the position would be sustained upon audit based solely on the technical merits of the tax position. The cumulative effect of adoption of FIN 48 did not result in a material adjustment to our tax liability for unrecognized income tax benefits. Our policy to include interest and penalties related to unrecognized tax benefits as a component of income tax expense did not change as a result of implementing the FIN 48. Please refer to Note 3 of these Notes to Condensed Consolidated Financial Statements for additional information.

Note 2 - Stock-Based Compensation

At the beginning of fiscal 2007, we adopted the provisions of Statement of Financial Accounting Standards No. 123(R), or SFAS No. 123(R), *Share-Based Payment*. SFAS No. 123(R) establishes accounting for stock-based awards exchanged for employee services. Accordingly, we measure stock-based compensation at grant date, based on the fair value of the awards, and we recognize that compensation as expense using the straight-line attribution method over the requisite employee service period, which is typically the vesting period of each award. We elected to adopt the modified prospective application method provided by SFAS No. 123(R). Our estimates of the fair values of employee stock options are calculated using a binomial model.

For option grants prior to our adoption of SFAS No. 123(R), we record stock-based compensation expense equal to the amount that would have been recognized if the fair value method provided in accordance with Statement of Financial Accounting Standards No. 123, or SFAS No. 123, *Accounting for Stock-Based Compensation*, as amended by Statement of Financial Accounting Standards No. 148, or SFAS No. 148, *Accounting for Stock-Based Compensation - Transition and Disclosures,* had been used.

Cumulative Effect of Change in Accounting Principle

Our adoption of SFAS No. 123(R) resulted in a cumulative benefit from the accounting change of $0.7 million during fiscal year 2007, which reflects the net cumulative impact of estimating forfeitures in the determination of period expense by reversing the previously recognized cumulative compensation expense related to those forfeitures, rather than recording forfeitures when they occur as previously permitted.

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

	Three Months Ended		Six Months Ended	
	July 29, 2007	**July 30, 2006**	**July 29, 2007**	**July 30,** 2006
	(In thousands)			
Cost of revenue	$ 2,702	$ 1,746	$ 5,511	$ 2,973
Research and development	$ 16,421	$ 16,588	$ 38,821	$ 31,014

Sales, general and administrative	$ 10,337	$ 10,532	$ 22,533	$ 17,104

During the three and six months ended July 29, 2007, we granted approximately 0.9 million and 5.7 million stock options, respectively, with an estimated total grant-date fair value of $13.7 million and $69.8 million, respectively, and a per option weighted average grant-date fair value of $15.52 and $12.22, respectively. Of the estimated total grant-date fair value, we estimated that the stock-based compensation expense related to the awards that are not expected to vest was $2.6 million and $13.5 million for the three and six months ended July 29, 2007, respectively.

During the three and six months ended July 30, 2006, we granted approximately 0.9 million and 6.8 million stock options, respectively, with an estimated total grant-date fair value of $9.7 million and $73.6 million, respectively, and a per option weighted average grant date fair value of $10.57 and $10.74, respectively. Of the estimated total grant-date fair value, we estimated that the stock-based compensation expense related to the awards that are not expected to vest was $1.9 million and $14.2 million for the three and six months ended July 30, 2006, respectively.

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

As of July 29, 2007 and July 30, 2006, the aggregate amount of unearned stock-based compensation expense related to our stock options was $175.0 million and $176.3 million, respectively, adjusted for estimated forfeitures. We will recognize the unearned stock-based compensation expense related to stock options over an estimated weighted average amortization period of 2.0 years for the six months ended July 29, 2007 and July 30, 2006, respectively.

Valuation Assumptions

In fiscal 2006, we transitioned from a Black-Scholes model to a binomial model for calculating the estimated fair value of new stock-based compensation awards granted under our stock option plans. We reevaluated the assumptions we used to estimate the value of employee stock options and shares issued under our employee stock purchase plan, beginning with stock options granted and shares issued under our employee stock purchase plan. At that time, our management also determined that the use of implied volatility is expected to be more reflective of market conditions and, therefore, could reasonably be expected to be a better indicator of our expected volatility than historical volatility. We also segregated options into groups for employees with relatively homogeneous exercise behavior in order to calculate the best estimate of fair value using the binomial valuation model. As such, the expected term assumption used in calculating the estimated fair value of our stock-based compensation awards using the binomial model is based on detailed historical data about employees' exercise behavior, vesting schedules, and death and disability probabilities. Our management believes the resulting binomial calculation provides a more refined estimate of the fair value of our employee stock options. For our employee stock purchase plan we continued to use the Black-Scholes model.

SFAS No. 123(R) also requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. Forfeitures are estimated based on historical experience. If factors change and we employ different assumptions in the application of SFAS No. 123(R) in future periods, the compensation expense that we record under SFAS No. 123(R) may differ significantly from what we have recorded in the current period.

The fair value of stock options granted under our stock option plans, and shares issued under our employee stock purchase plan have been estimated at the date of grant using a straight-line attribution method with the following assumptions:

	Stock Options Three Months Ended		**Employee Stock Purchase Plan Three Months Ended**	
	July 29, 2007	**July 30, 2006**	**July 29, 2007**	**July 30, 2006**
	(Using a binomial model)	***(Using a binomial model)***	***(Using the Black-Scholes model)***	***(Using the Black-Scholes model)***
Expected life (in years)	3.8 - 5.2	3.6 - 5.1	0.5 - 2.0	0.5 - 2.0
Risk free interest rate	5.0%	5.1%	3.7%-5.1%	2.3%-4.6%
Volatility	37%-40%	41%-51%	38%-47%	30%-41%
Dividend yield	—	—	—	—

	Stock Options Six Months Ended		**Employee Stock Purchase Plan Six Months Ended**	
	July 29,	**July 30,**	**July 29,**	**July 30,**

	2007	2006	2007	2006
	(Using a binomial model)	***(Using a binomial model)***	***(Using the Black-Scholes model)***	***(Using the Black-Scholes model)***
Expected life (in years)	3.8 - 5.8	3.6 - 5.1	0.5 - 2.0	0.5 - 2.0
Risk free interest rate	4.6%-5.0%	4.7%-5.1%	3.5%-5.2%	1.6%-4.6%
Volatility	37%-45%	39%-51%	38%-47%	30%-45%
Dividend yield	—	—	—	—

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

Equity Incentive Program

We consider equity compensation to be long term compensation and an integral component of our efforts to attract and retain exceptional executives, senior management and world-class employees. We believe that properly structured equity compensation aligns the long-term interests of stockholders and employees by creating a strong, direct link between employee compensation and stock appreciation, as stock options are only valuable to our employees if the value of our common stock increases after the date of grant.

2007 Equity Incentive Plan

At the Annual Meeting of Stockholders held on June 21, 2007, our stockholders approved the NVIDIA Corporation 2007 Equity Incentive Plan, or the 2007 Plan.

The 2007 Plan authorizes the issuance of incentive stock options, nonstatutory stock options, restricted stock, restricted stock unit, stock appreciation rights, performance stock awards, performance cash awards, and other stock-based awards to employees, directors and consultants. Only our employees may receive incentive stock options. The 2007 Plan succeeds our 1998 Equity Incentive Plan, our 1998 Non-Employee Directors' Stock Option Plan, our 2000 Nonstatutory Equity Incentive Plan, and the PortalPlayer, Inc. 2004 Stock Incentive Plan, or the Prior Plans. Except as set forth below, on June 21, 2007, all of the shares remaining available for issuance under the Prior Plans were available for issuance under the 2007 Plan and any shares of Common Stock subject to outstanding options and stock awards granted under the Prior Plans that expired or terminated for any reason prior to exercise or settlement were available for issuance pursuant to stock awards under the 2007 Plan. Following adoption of the 2007 Plan, no additional stock options will be granted under any of the Prior Plans except for a reserve of 100,000 shares from the 1998 Plan that may be used for stock option grants to newly hired employees of our Company and our affiliates who are foreign nationals or are employed outside the United States. This reserve may be utilized until September 30, 2007, when we anticipate that such steps as are necessary or appropriate to permit participation in the 2007 Plan by employees, directors or consultants who are foreign nationals or are employed outside the United States will be complete. All options and stock awards granted under the Prior Plans shall remain subject to the terms of the Prior Plans with respect to which they were originally granted. Up to 101,845,177 shares of our common stock may be issued pursuant to stock awards granted under the 2007 Plan.

Our Board of Directors, or the Board, or its duly authorized committee determines the terms of each stock option granted under our 2007 Plan, including the exercise price, the form of consideration paid on exercise, the vesting schedule, restrictions on transfer and the term. The exercise price of a stock option granted under the 2007 Plan may not be less than 100% of the fair market value of the stock subject to the option on the date of grant (for an incentive stock option, not less than 110% if the optionee is a 10% holder of our outstanding stock). The term of an option will not be longer than ten years (although options generally expire prior to such time in connection with a termination of continued service) and may be subject to restrictions on transfer.

Unless terminated sooner, the 2007 Plan is scheduled to terminate on April 23, 2017. Our Board may suspend or terminate the 2007 Plan at any time. No awards may be granted under the 2007 Plan while the 2007 Plan is suspended or after it is terminated. The Board may also amend the 2007 Plan at anytime. However, if legal, regulatory or listing requirements require stockholder approval, the amendment will not go into effect until the stockholders have approved the amendment.

PortalPlayer, Inc. 1999 Stock Option Plan, the NVIDIA Corporation 1998 Equity Incentive Plan and 1998 Employee Stock Purchase Plan

The description of the key features of the PortalPlayer, Inc. 1999 Stock Option Plan, NVIDIA Corporation 1998 Equity Incentive Plan and 1998 Employee Stock Purchase Plan, may be read in conjunction with the audited financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended January 28, 2007.

The following summarizes the transactions under the PortalPlayer, Inc. 1999 Stock Option Plan, the NVIDIA Corporation 1998 Equity Incentive Plan and the 2007 Plan:

	Options Available for Grant	Options Outstanding		Weighted Average Exercise Price Per Share
Balances, January 28, 2007	21,780,284	73,994,662	$	13.29
Additional shares reserved	16,743,033	-		-
Granted	(5,713,656)	5,713,656	$	30.53
Exercised		(13,809,392)	$	8.49
Cancelled	1,155,185	(1,155,185)	$	27.27
Balances, July 29, 2007	33,964,846	64,743,741	$	15.60

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

The aggregate intrinsic value of stock options exercised for the three and six months ended July 29, 2007 was $294.7 million and $386.2 million, respectively. The aggregate intrinsic value of stock options exercised for the three and six months ended July 30, 2006 was $34.8 million and $196.5 million, respectively.

Note 3 - Income Taxes

On January 29, 2007, we adopted FIN 48. The cumulative effect of adoption of FIN 48 did not result in a material adjustment to our tax liability for unrecognized income tax benefits. At the adoption date of January 29, 2007, we had $63.8 million of unrecognized tax benefits, $61.1 million of which would affect our effective tax rate if recognized. As of July 29, 2007, we had $74.5 million of unrecognized tax benefits, $71.8 million of which would affect our effective tax rate if recognized. The recognition of the remaining unrecognized tax benefits of $2.7 million, at the adoption date and as of July 29, 2007, would be reported as an adjustment to goodwill to the extent of pre-acquisition unrecognized tax benefits.

We have historically classified certain unrecognized tax benefits as income taxes payable, which was included within the current liabilities section of our Condensed Consolidated Balance Sheet. As a result of our adoption of FIN 48, we now classify an unrecognized tax benefit as a current liability, or as a reduction of the amount of a net operation loss carryforward or amount refundable, to the extent that we anticipate payment or receipt of cash for income taxes within one year. Likewise, the amount is classified as a long-term liability if we anticipate payment or receipt of cash for income taxes during a period beyond a year. As of January 30, 2007, we reclassified unrecognized tax benefits of $33.1 million to income taxes payable and deferred tax liability, which is included within the deferred tax and other long-term liabilities section of our Condensed Consolidated Balance Sheet.

Our policy to include interest and penalties related to unrecognized tax benefits as a component of income tax expense did not change as a result of implementing FIN 48. At the adoption date of January 29, 2007, we had accrued $6.2 million for the payment of interest related to unrecognized tax benefits, which is included as a component of our unrecognized tax benefits. There have been no significant changes to these amounts during the six months ended July 29, 2007.

While we believe that we have adequately provided for all tax positions, amounts asserted by tax authorities could be greater or less than our accrued position. Accordingly, our provisions on federal, state and foreign tax-related matters to be recorded in the future may change as revised estimates are made or the underlying matters are settled or otherwise resolved. As of July 29, 2007, 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.

We are subject to taxation by a number of taxing authorities both in the United States and throughout the world. As of July 29, 2007, the material tax jurisdictions that are subject to examination include the United States, Hong Kong, Taiwan, China and India and include our fiscal years 2002 through 2007. As of July 29, 2007, we are under examination for U.S. federal tax purposes for fiscal years 2004 through 2006, in Taiwan for fiscal year 2003, and in India for fiscal year 2006. During the three months ended July 29, 2007, we settled our tax examination in Canada with no significant impact to our Condensed Consolidated Financial Statements.

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

Note 4 - Net Income Per Share

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

	Three Months Ended		Six Months Ended	
	July 29, 2007	July 30, 2006	July 29, 2007	July 30, 2006
	(In thousands, except per share data)			
Numerator:				
Net income	$ 172,732	$ 86,753	$ 304,991	$ 178,817
Denominator:				
Denominator for basic net income per share, weighted average shares	364,870	350,244	362,850	349,090
Effect of dilutive securities:				
Stock options outstanding	37,683	35,345	37,788	38,395
Denominator for diluted net income per share, weighted average shares	402,553	385,589	400,638	387,485
Net income per share:				
Basic net income per share	$ 0.47	$ 0.25	$ 0.84	$ 0.51
Diluted net income per share	$ 0.43	$ 0.22	$ 0.76	$ 0.46

Diluted net income per share for the three and six months ended July 29, 2007 does not include the effect of anti-dilutive common equivalent shares from stock options outstanding of 3.4 million and 11.2 million, respectively. Diluted net income per share for the three and six months ended July 30, 2006 does not include the effect of 7.5 million and 6.8 million anti-dilutive common equivalent shares, respectively.

Note 5 - 3dfx

During fiscal year 2002, we completed the purchase of certain assets from 3dfx Interactive, Inc., or 3dfx, for an aggregate purchase price of approximately $74.2 million. On December 15, 2000, NVIDIA Corporation and one of our indirect subsidiaries entered into an Asset Purchase Agreement, or the APA, which closed on April 18, 2001, to purchase certain graphics chip assets from 3dfx. Under the terms of the APA, the cash consideration due at the closing was $70.0 million, less $15.0 million that was loaned to 3dfx pursuant to a Credit Agreement dated December 15, 2000. The APA also provided, subject to the other provisions thereof, that if 3dfx properly certified that all its debts and other liabilities had been provided for, then we would have been obligated to pay 3dfx one million shares, which due to subsequent stock splits now totals four million shares, of NVIDIA common stock. If 3dfx could not make such a certification, but instead properly certified that its debts and liabilities could be satisfied for less than $25.0 million, then 3dfx could have elected to receive a cash payment equal to the amount of such debts and liabilities and a reduced number of shares of our common stock, with such reduction calculated by dividing the cash payment by $25.00 per share. If 3dfx could not certify that all of its debts and liabilities had been provided for, or could not be satisfied, for less than $25.0 million, we would not be obligated under the APA to pay any additional consideration for the assets.

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

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, we were served with a complaint filed by the Trustee appointed by the Bankruptcy Court to represent the interests of the 3dfx bankruptcy estate. The Trustee's complaint asserts claims for, among other things, successor liability and fraudulent transfer and seeks additional payments from us. On October 13, 2005, the Bankruptcy Court held a hearing on the Trustee's motion for summary adjudication. On December 23, 2005, the Bankruptcy Court issued its ruling denying the Trustee's Motion for Summary Adjudication in all material respects and holding that NVIDIA is prevented from disputing that the value of the 3dfx transaction to NVIDIA was less than $108.0 million. The Bankruptcy Court expressly denied the Trustee's request to find that the value of the 3dfx assets conveyed to NVIDIA were at least $108.0 million. In early November 2005, after many months of mediation, NVIDIA and the Official Committee of Unsecured Creditors, or the Creditors' Committee, reached a conditional settlement of the Trustee's claims against NVIDIA. This conditional settlement, presented as the centerpiece of a proposed Plan of Liquidation in the bankruptcy case, was subject to a confirmation process through a vote of creditors and the review and approval of the Bankruptcy Court after notice and hearing. The Trustee advised that he intended to object to the settlement, which would have called for a payment by NVIDIA of approximately $30.6 million to the 3dfx estate. Under the settlement, $5.6 million related to various administrative expenses and Trustee fees, and $25.0 million related to the satisfaction of debts and liabilities owed to the general unsecured creditors of 3dfx. Accordingly, during the three month period ended October 30, 2005, we recorded $5.6 million as a charge to settlement costs and $25.0 million as additional purchase price for 3dfx.

However, the conditional settlement never progressed substantially through the confirmation process. On December 21, 2005, the Bankruptcy Court determined that it would schedule trial of one portion of the Trustee's case against NVIDIA. On January 2, 2007, NVIDIA exercised its right to terminate the settlement agreement on grounds that the Bankruptcy Court had failed to proceed toward confirmation of the Creditors' Committee's plan. Trial began on March 21, 2007 on valuation issues in the Trustee's constructive fraudulent transfer claims against NVIDIA. Specifically, the Bankruptcy Court tried four questions: (1) what did 3dfx transfer to NVIDIA in the APA?; (2) of what was transferred, what qualifies as "property" subject to the Bankruptcy Court's avoidance powers under the Uniform Fraudulent Transfer Act and relevant bankruptcy code provisions?; (3) what is the fair market value of the "property" identified in answer to question (2)?; and (4) was the $70 million that NVIDIA paid "reasonably equivalent" to the fair market value of that property?. At the conclusion of the evidence, the Bankruptcy Court asked the parties to submit a post-trial briefing. That briefing was concluded on May 25, 2007, and the Bankruptcy Court's decision is still pending.

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 13 of these Notes to Condensed Consolidated Financial Statements for further information regarding this litigation.

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

Total	$	99,161

Note 6 - Business Combinations

On February 20, 2006, we completed our acquisition of ULi Electronics, Inc., or ULi, a core logic developer for the personal computer, or PC, industry. The acquisition represents our ongoing investment in our platform solution strategy and has strengthened our sales, marketing, and customer engineering presence in Taiwan and China. The aggregate purchase price consisted of cash consideration of approximately $53.1 million.

On March 29, 2006, we completed our acquisition of Hybrid Graphics Ltd., or Hybrid Graphics, a developer of embedded 2D and 3D graphics software for handheld devices. The aggregate purchase price consisted of cash consideration of approximately $36.7 million.

On January 5, 2007, we completed our acquisition of PortalPlayer Inc., or PortalPlayer, a leading supplier of semiconductors, firmware, and software for personal media players, or PMPs, and secondary display-enabled computers. We believe that the acquisition will accelerate our ongoing investment in our handheld product strategy. Pursuant to the terms of the acquisition, we paid cash consideration of approximately $344.9 million in exchange for common stock in PortalPlayer and recognized an additional purchase price of $2.9 million, the value of approximately 658,000 options of NVIDIA common stock issued upon conversion of outstanding PortalPlayer stock options. The allocation of the purchase price for the PortalPlayer acquisition has been prepared on a preliminary basis and reasonable changes are expected as additional information becomes available.

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

We allocated the purchase price of each of these acquisitions to tangible assets, liabilities and identifiable intangible assets acquired, as well as in-process research and development, or IPR&D, if identified, based on their estimated fair values. The excess of purchase price over the aggregate fair values was recorded as goodwill. The fair value assigned to identifiable intangible assets acquired was based on estimates and assumptions determined by management. Purchased intangibles are amortized on a straight-line basis over their respective useful lives.

As of July 29, 2007, the estimated fair values of the purchase price allocated to assets we acquired and liabilities we assumed on the respective acquisition dates were as follows:

	ULi	Hybrid Graphics	PortalPlayer
		(In thousands)	
Fair Market Values			
Cash and cash equivalents	$ 21,551	$ 1,180	$ 10,174
Marketable Securities	-	-	176,492
Accounts receivable	8,148	808	16,850
Inventories	4,896	-	2,326
Other assets	935	73	12,798
Property and equipment	1,010	134	19,996
In-process research and development	-	602	13,400
Goodwill	31,204	27,906	106,621
Intangible assets:			
Existing technology	2,490	5,179	6,700
Customer relationships	653	2,650	2,700
Backlog	-	-	2,200
Patents	-	-	600
Trademark	-	482	-
Non-compete agreements	-	72	-
Total assets acquired	70,887	39,086	370,857
Current liabilities	(17,031)	(1,373)	(14,903)
Acquisition related costs	(781)	(740)	(8,064)
Long-term liabilities	-	(301)	(46)
Total liabilities assumed	(17,812)	(2,414)	(23,013)
Net assets acquired	$ 53,075	$ 36,672	$ 347,844

	ULi	Hybrid Graphics	PortalPlayer
		Straight-line depreciation / amortization period	
Property and equipment	4 - 49 months	1 - 36 months	3 - 60 months
Intangible assets:			
Existing technology	3 years	3 years	3 years
Customer relationships	3 years	3 years	1-3 years

Backlog	-	-	2 months
Patents	-	-	3 years
Trademark	-	3 years	-
Non-compete agreements	-	3 years	-

The amount of the IPR&D represents the value assigned to research and development projects of Hybrid Graphics and PortalPlayer that had commenced but had not yet reached technological feasibility and had no alternative future use. In accordance with Statement of Financial Accounting Standards No. 2, or SFAS No. 2, *Accounting for Research and Development Costs*, as clarified by FASB issued Interpretation No. 4, or FIN 4, *Applicability of FASB Statement No. 2 to Business Combinations Accounted for by the Purchase Method an interpretation of FASB Statement No. 2*, amounts assigned to IPR&D meeting the above-stated criteria were charged to research and development expenses as part of the allocation of the purchase price.

The pro forma results of operations for these acquisitions have not been presented because the effects of the acquisitions, individually or in the aggregate, were not material to our results.

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

Note 7 - Goodwill

The carrying amount of goodwill is as follows:

	July 29, 2007	January 28, 2007
	(In thousands)	
3dfx	$ 75,326	$ 75,326
MediaQ	35,342	35,342
ULi	31,204	31,051
Hybrid Graphics	27,906	27,906
PortalPlayer	106,621	114,816
Other	16,984	16,984
Total goodwill	$ 293,383	$ 301,425

During the first half of fiscal year 2008, goodwill related to PortalPlayer decreased by $8.2 million primarily as a result of a $10.3 million increase in the fair value of land acquired based on a third party appraisal which we obtained as a result of our acquisition of PortalPlayer. This decrease in PortalPlayer goodwill was offset primarily by an increase of $1.9 million as a result of a change in estimated lease exit costs involving a facility leased by PortalPlayer on date of acquisition. Please refer to Note 6 of these Notes to Condensed Consolidated Financial Statements for further information regarding the PortalPlayer acquisition.

Note 8 - Amortizable Intangible Assets

We are currently amortizing our intangible assets with definitive lives over periods ranging from one to five years, primarily on a straight-line basis. The components of our amortizable intangible assets are as follows:

	July 29, 2007			January 28, 2007		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
			(In thousands)			
Technology licenses	$ 58,439	$ (26,394)	$ 32,045	$ 37,516	$ (20,480)	$ 17,036
Patents	34,898	(26,236)	8,662	34,623	(24,569)	10,054
Acquired intellectual property	50,812	(36,784)	14,028	50,212	(31,894)	18,318
Trademarks	11,310	(11,310)	-	11,310	(11,310)	-
Other	1,494	(1,494)	-	1,494	(1,391)	103
Total intangible assets	$ 156,953	$ (102,218)	$ 54,735	$ 135,155	$ (89,644)	$ 45,511

The increase in the gross carrying amount of technology licenses as of July 29, 2007 when compared to January 28, 2007 was primarily related to approximately $20.7 million in payments under a confidential patent licensing arrangement that we entered into during fiscal year 2007. Our aggregate commitment for license payments under this arrangement could range from $97.0 million to $110.0 million over a ten year period; however, the net outlay may be reduced by the occurrence of certain events covered by the arrangement.

Amortization expense associated with intangible assets for the three and six months ended July 29, 2007 was $5.6 million and $12.6 million, respectively. Amortization expense associated with intangible assets for the three and six months ended July 30, 2006 was $4.0 million and $8.1 million, respectively. Future amortization expense related to the net carrying amount of intangible assets at July 29, 2007 is estimated to be $9.3 million for the remainder of fiscal 2008, $13.8 million in fiscal 2009, $9.1 million in fiscal 2010, $4.6 million in fiscal 2011, $3.7 million in fiscal 2012 and a total of $14.2 million in fiscal 2013 and fiscal years subsequent to fiscal 2013.

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

Note 9 - Marketable Securities

We account for our investment instruments in accordance with Statement of Financial Accounting Standards No. 115, or SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities*. All of our cash equivalents and marketable securities are treated as "available-for-sale" under SFAS No. 115. Cash equivalents consist of financial instruments which are readily convertible into cash and have original maturities of three months or less at the time of acquisition. Marketable securities consist primarily of highly liquid investments with a maturity of greater than three months when purchased and some equity investments. We classify our marketable securities at the date of acquisition in the available-for-sale category as our intention is to convert them into cash for operations. 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. Realized gains and losses on the sale of marketable securities are determined using the specific-identification method. Net realized and unrealized losses for the three and six months ended July 29, 2007 were not material.

Note 10 - Balance Sheet Components

Certain balance sheet components are as follows:

	July 29, 2007	January 28, 2007
	(In thousands)	
Inventories:		
Raw materials	$ 33,197	$ 56,261
Work in-process	65,147	111,058
Finished goods	177,961	187,361
Total inventories	$ 276,305	$ 354,680

At July 29, 2007, we had outstanding inventory purchase obligations totaling approximately $483.4 million.

	July 29, 2007	January 28, 2007
	(In thousands)	
Deposits and other assets:		
Investment in non-affiliates	$ 11,684	$ 11,684
Long-term prepayments	5,953	8,245
Deferred income taxes	-	7,380
Other	8,275	8,420
Total deposits and other assets	$ 25,912	$ 35,729

	July 29, 2007	January 28, 2007
	(In thousands)	
Accrued Liabilities:		
Accrued customer programs	$ 195,316	$ 181,182
Accrued payroll and related expenses	89,481	81,352
Accrued legal settlement	30,600	30,600
Deferred rent	11,980	12,551

Income and other taxes payable	7,707	37,903
Deferred revenue	3,584	1,180
Other	18,749	21,964
Total accrued liabilities	$ 357,417	$ 366,732

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

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

	July 29, 2007	January 28, 2007
	(In thousands)	
Deferred tax and other long-term liabilities:		
Income taxes payable	$ 37,691	$ -
Deferred income tax liability	31,897	-
Other long-term liabilities	10,489	14,180
Accrued payroll taxes related to stock options	8,995	8,995
Asset retirement obligation	6,119	6,362
Total deferred tax and other long-term liabilities	$ 95,191	$ 29,537

Please refer to Note 3 of these Notes to Condensed Consolidated Financial Statements for discussion regarding the reclassification of income taxes payable from accrued liabilities to deferred tax and other long-term liabilities as a result of the adoption of FIN 48.

Note 11 - Comprehensive Income

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

	Three Months Ended		Six Months Ended	
	July 29, 2007	July 30 2006	July 29, 2007	July 30 2006
	(In thousands)			
Net income	$ 172,732	$ 86,753	$ 304,991	$ 178,817
Net change in unrealized gains (losses) on available-for-sale securities, net of tax	320	93	241	(394)
Reclassification adjustments for net realized gains on available-for-sale securities included in net income, net of tax	(18)	(17)	(90)	(24)
Total comprehensive income	$ 173,034	$ 86,829	$ 305,142	$ 178,399

Note 12 - Guarantees

FASB Interpretation No. 45, or FIN 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others,* 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, FIN 45 requires disclosures about the guarantees that an entity has issued, including a tabular reconciliation of the changes of the entity's product warranty liabilities.

The following table summarizes the changes in the estimated product warranty liabilities for the three months ended July 29, 2007 and July 30, 2006 and six months ended July 29, 2007 and July 30, 2006:

	Three Months Ended		Six Months Ended	
	July 29, 2007	July 30 2006	July 29, 2007	July 30 2006
	(In thousands)			
Balance at beginning of period	$ 19,063	$ 11,566	$ 17,958	$ 10,239
Additions (1)	8,468	12,417	13,448	24,192
Deductions (2)	(6,837)	(11,602)	(10,712)	(22,050)
Balance at end of period (3)	$ 20,694	$ 12,381	$ 20,694	$ 12,381

17

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

(1) Includes $8,281 and $13,027 for the three and six months ended July 29, 2007, respectively, and $12,417 and $24,192 for the three and six months ended July 30, 2006, respectively, towards allowance for sales returns estimated at the time revenue is recognized primarily based on historical return rates and is charged as a reduction to revenue.

(2) Includes $6,837 and $ 10,712 for the three months and six months ended July 29, 2007, respectively, and $11,602 and $22,050 for the three and six months ended July 30, 2006, respectively, written off against the allowance for sales returns.

(3) Includes $16,792 as of July 29, 2007 and $12,381 as of July 30, 2006 relating to allowance for sales returns.

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.

Note 13 - Commitments and Contingencies

Litigation

3dfx

On December 15, 2000, NVIDIA Corporation and one of our indirect subsidiaries entered into the APA to purchase certain graphics chip assets from 3dfx which closed on April 18, 2001.

In May 2002, we were served with a California state court complaint filed by the landlord of 3dfx's San Jose, California commercial real estate lease, Carlyle Fortran Trust, or Carlyle. In December 2002, we were served with a California state court complaint filed by the landlord of 3dfx's Austin, Texas commercial real estate lease, CarrAmerica Realty Corporation. The landlords' complaints both asserted claims for, among other things, interference with contract, successor liability and fraudulent transfer and sought to recover, among other things, amounts owed on their leases with 3dfx in the aggregate amount of approximately $15 million. In October 2002, 3dfx filed for Chapter 11 bankruptcy protection in the United States Bankruptcy Court for the Northern District of California. The landlords' actions were subsequently removed to the United States Bankruptcy Court for the Northern District of California and consolidated, for purposes of discovery, with a complaint filed by the Trustee in the 3dfx bankruptcy case. Upon motion by NVIDIA in 2005, the District Court withdrew the reference to the Bankruptcy Court and the landlords' actions were removed to the United States District Court for the Northern District of California. On November 10, 2005, the District Court granted our motion to dismiss the landlords' respective amended complaints and allowed the landlords until February 4, 2006 to amend their complaints. The landlords re-filed claims against NVIDIA in early February 2006, and NVIDIA again filed motions requesting the District Court to dismiss all such claims. The District Court took both motions under submission. On September 29, 2006, the District Court dismissed the CarrAmerica action in its entirety and without leave to amend. The District Court found, among other things, that CarrAmerica lacked standing to bring the lawsuit and that such standing belongs exclusively to the bankruptcy Trustee. On October 27, 2006, CarrAmerica filed a notice of appeal from that order. On December 15, 2006, the District Court also dismissed the Carlyle complaint in its entirety, finding that Carlyle lacked standing to pursue some of its claims, and that certain other claims were substantively unmeritorious. Carlyle filed a notice of appeal from that order on January 9, 2007. Both landlords' appeals are pending before the Ninth Circuit Court of Appeals, and briefing on both appeals has been consolidated. NVIDIA has filed motions to recover its litigation costs and attorneys fees against both Carlyle and CarrAmerica. Those motions were scheduled for hearing in early August 2007, but have been taken off calendar by the Court, and will now be rescheduled.

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

In March 2003, we were served with a complaint filed by the Trustee appointed by the Bankruptcy Court to represent the interests of the 3dfx bankruptcy estate. The Trustee's complaint asserts claims for, among other things, successor liability and fraudulent transfer and seeks additional payments from us. On October 13, 2005, the Bankruptcy Court held a hearing on the Trustee's motion for summary adjudication. On December 23, 2005, the Bankruptcy Court issued its ruling denying the Trustee's Motion for Summary Adjudication in all material respects and holding that NVIDIA is prevented from disputing that the value of the 3dfx transaction to NVIDIA was less than $108.0 million. The Bankruptcy Court expressly denied the Trustee's request to find that the value of the 3dfx assets conveyed to NVIDIA were at least $108.0 million. In early November 2005, after many months of mediation, NVIDIA and the Official Committee of Unsecured Creditors, or the Creditors' Committee, reached a conditional settlement of the Trustee's claims against NVIDIA. This conditional settlement, presented as the centerpiece of a proposed Plan of Liquidation in the bankruptcy case, was subject to a confirmation process through a vote of creditors and the review and approval of the Bankruptcy Court after notice and hearing. The Trustee advised that he intended to object to the settlement, which would have called for a payment by NVIDIA of approximately $30.6 million to the 3dfx estate. Under the settlement, $5.6 million related to various administrative expenses and Trustee fees, and $25.0 million related to the satisfaction of debts and liabilities owed to the general unsecured creditors of 3dfx. Accordingly, during the three month period ended October 30, 2005, we recorded $5.6 million as a charge to settlement costs and $25.0 million as additional purchase price for 3dfx.

However, the conditional settlement never progressed substantially through the confirmation process. On December 21, 2005, the Bankruptcy Court determined that it would schedule trial of one portion of the Trustee's case against NVIDIA. On January 2, 2007, NVIDIA exercised its right to terminate the settlement agreement on grounds that the Bankruptcy Court had failed to proceed toward confirmation of the Creditors' Committee's plan. Trial began on March 21, 2007 on valuation issues in the Trustee's constructive fraudulent transfer claims against NVIDIA. Specifically, the Bankruptcy Court tried four questions: (1) what did 3dfx transfer to NVIDIA in the APA?; (2) of what was transferred, what qualifies as "property" subject to the Bankruptcy Court's avoidance powers under the Uniform Fraudulent Transfer Act and relevant bankruptcy code provisions?; (3) what is the fair market value of the "property" identified in answer to question (2)?; and (4) was the $70 million that NVIDIA paid "reasonably equivalent" to the fair market value of that property?. At the conclusion of the evidence, the Bankruptcy Court asked the parties to submit post-trial briefing. That briefing was concluded on May 25, 2007, and the Bankruptcy Court's decision is still pending.

Following the Trustee's filing of a Form 8-K on behalf of 3dfx, in which the Trustee disclosed the terms of the proposed settlement agreement between NVIDIA and the Creditor's Committee, certain shareholders of 3dfx filed a petition with the Bankruptcy Court to appoint an official committee to represent the claimed interests of 3dfx shareholders. That petition was granted and an Equity Holders Committee was appointed. Since that appointment, the Equity Holders Committee has filed a competing plan of reorganization/liquidation. The Equity Holders plan assumes that 3dfx can raise additional equity capital that would be used to retire all of 3dfx's debts. Upon the payment of that debt, the Equity Holders Committee contends that NVIDIA would be obliged to pay the stock consideration provided for in the APA. By virtue of stock splits since the execution of the APA, the stock consideration would now total four million shares of our common stock. The Equity Holders' Committee filed a motion with the Bankruptcy Court for an order giving it standing to bring a lawsuit to enforce the APA. Over our objection, the Bankruptcy Court granted that motion on May 1, 2006 and the Equity Holders' Committee filed its Complaint for Declaratory Relief against NVIDIA that same day. NVIDIA moved to dismiss the Complaint for Declaratory Relief, and the Bankruptcy Court granted that motion with leave to amend. The Equity Committee thereafter amended its complaint, and NVIDIA moved to dismiss that amended complaint as well. At the hearing on December 21, 2006, the Bankruptcy Court granted the motion as to one of the Equity Holders' Committee's claims, and denied it as to the others. However, the Bankruptcy

Court also ruled that NVIDIA would only be required to answer the first three causes of action by which the Equity Holders' Committee seeks a determination that the APA was not terminated before 3dfx filed for bankruptcy protection, that the 3dfx bankruptcy estate still holds some rights in the APA, and that the APA is capable of being assumed by the bankruptcy estate. In addition, the Equity Holders Committee filed a motion seeking Bankruptcy Court approval of investor protections for Harbinger Capital Partners Master Fund I, Ltd., an equity investment firm that has conditionally agreed to pay no more than $51.5 million for preferred stock in 3dfx. The hearing on that motion was held on January 18, 2007, and the Bankruptcy Court approved the proposed protections.

Proceedings, SEC inquiry and lawsuits related to our historical stock option granting practices

In June 2006, the Audit Committee of the Board of NVIDIA, or the Audit Committee, began a review of our stock option practices based on the results of an internal review voluntarily undertaken by management. The Audit Committee, with the assistance of outside legal counsel, completed its review on November 13, 2006 when the Audit Committee reported its findings to our full Board. The review covered option grants to all employees, directors and consultants for all grant dates during the period from our initial public offering in January 1999 through June 2006. Based on the findings of the Audit Committee and our internal review, we identified a number of occasions on which we used an incorrect measurement date for financial accounting and reporting purposes.

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

We voluntarily contacted the SEC regarding the Audit Committee's review and, as of the present date, the SEC is continuing the inquiry of our historical stock option grant practices it began in late August 2006. In October 2006, we met with the SEC and provided it with a review of the status of the Audit Committee's review and in November 2006 we voluntarily provided the SEC with further documents. We continue to cooperate with the SEC in its inquiry.

Concurrently with our internal review and the SEC's inquiry, since September 29, 2006, ten derivative cases have been filed in state and federal courts asserting claims concerning errors related to our historical stock option granting practices and associated accounting for stock-based compensation expense. These complaints have been filed in various courts, including the California Superior Court, Santa Clara County, the United States District Court for the Northern District of California, and the Court of Chancery of the State of Delaware in and for New Castle County. Plaintiffs filed a consolidated complaint in the United States District Court for the Northern District of California on February 28, 2007. The California Superior Court cases have been consolidated and plaintiffs filed a consolidated complaint on April 23, 2007. All of the cases purport to be brought derivatively on behalf of NVIDIA against members of our Board and several of our current and former officers and directors. Plaintiffs in these actions allege claims for, among other things, breach of fiduciary duty, unjust enrichment, insider selling, abuse of control, gross mismanagement, waste, and constructive fraud. The Northern District of California action also alleges violations of federal provisions, including Sections 10(b), 14(a) and 20(a) of the Securities Exchange Act of 1934. The plaintiffs seek to recover for NVIDIA, among other things, damages in an unspecified amount, rescission, punitive damages, treble damages for insider selling, and fees and costs. Plaintiffs also seek an accounting, a constructive trust and other equitable relief. We intend to take all appropriate action in response to these complaints. Between May 14, 2007 and May 17, 2007, we filed several motions to dismiss the federal, Delaware and Santa Clara actions. All of the motions remain pending.

On August 5, 2007, our Board authorized the formation of a Special Litigation Committee, comprised of three current Board members, to investigate, evaluate, and make a determination as to how NVIDIA should proceed with respect to the claims and allegations asserted in the underlying derivative cases brought on behalf of NVIDIA.

Department of Justice Subpoena and Investigation, and Civil Cases

On November 29, 2006, we received a subpoena from the San Francisco Office of the Antitrust Division of the United States Department of Justice, or DOJ, in connection with the DOJ's investigation into potential antitrust violations related to graphics processing units, or GPUs, and cards. No specific allegations have been made against us. We are cooperating with the DOJ in its investigation.

As of the date of this disclosure, over 50 civil complaints have been filed against us. The majority of the complaints were filed in the Northern District of California, several were filed in the Central District of California, and other cases were filed in several other Federal district courts. On April 18, 2007, the Judicial Panel on Multidistrict Litigation transferred the actions currently pending outside of the Northern District of California to the Northern District of California for coordination of pretrial proceedings before the Honorable William H. Alsup.

In the consolidated proceedings, two groups of plaintiffs (one representing all direct purchasers of GPUs and the other representing all indirect purchasers) filed consolidated, amended class-action complaints on June 14, 2007. These complaints purport to assert federal antitrust claims based on alleged price fixing, market allocation, and other alleged anti-competitive agreements between us and ATI Technologies, Inc., or ATI, and Advanced Micro Devices, Inc., or AMD as a result of its acquisition of ATI. The indirect purchasers' consolidated amended complaint also asserts a variety of state law antitrust, unfair competition and consumer protection claims on the same allegations, as well as a common law claim for unjust enrichment.

On July 16, 2007, we moved to dismiss the amended complaints. The motions to dismiss are pending and scheduled to be heard by Judge Alsup on September 20, 2007. We also moved to stay all discoveries while the motions to dismiss are resolved. The court granted our motion to stay on July 24, 2007. We believe the allegations in the consolidated, amended complaints are without merit and intend to vigorously defend the cases.

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

Note 14 - Stockholders' Equity

Stock Repurchase Program

During fiscal year 2005, we announced that our Board had authorized a stock repurchase program to repurchase shares of our common stock, subject to certain specifications, up to an aggregate maximum amount of $300 million. During fiscal year 2007, the Board further approved an increase of $400 million to the original stock repurchase program. On May 21, 2007, we announced a stock repurchase program under which we may purchase up to an additional $1.0 billion of our common stock over a three year period through May 2010. As a result of these increases, we have an ongoing authorization from the Board, subject to certain specifications, to repurchase shares of our common stock up to an aggregate maximum amount of $1.7 billion.

The repurchases will be made from time to time in the open market, in privately negotiated transactions, or in structured stock repurchase programs, and may be made in one or more larger repurchases, in compliance with the Securities Exchange Act of 1934, or the Exchange Act, Rule 10b-18, subject to market conditions, applicable legal requirements, and other factors. The program does not obligate NVIDIA to acquire any particular amount of common stock and the program may be suspended at any time at our discretion. As part of our share repurchase program, we have entered into, and we may continue to enter into, structured share repurchase transactions with financial institutions. These agreements generally require that we make an up-front payment in exchange for the right to receive a fixed number of shares of our common stock upon execution of the agreement, and a potential incremental number of shares of our common stock, within a pre-determined range, at the end of the term of the agreement.

During the three months ended July 29, 2007, we entered into a structured share repurchase transaction to repurchase 3.3 million shares for $124.4 million which we recorded on the trade date of the transaction. Through July 29, 2007, we have repurchased 34.7 million shares under our stock repurchase program for a total cost of $737.5 million.

Subsequent to July 29, 2007, we entered into a structured share repurchase transaction to repurchase shares of our common stock for $125.0 million that we expect to settle prior to the end of our third quarter of fiscal year 2008 ending on October 28, 2007.

Convertible Preferred Stock

As of July 29, 2007 and July 30, 2006, no shares of preferred stock were outstanding.

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.

During the first quarter of fiscal 2008, we reorganized our operating segments. We now report financial information for four operating segments to our CODM: the graphics processing unit, or GPU, business, which is comprised primarily of our GeForce products that support desktop and notebook PCs, plus memory products; the professional solutions business, or PSB, which is comprised of our NVIDIA Quadro professional workstation products and other professional graphics products, including our NVIDIA Tesla high-performance computing products; the media and communications processor, or MCP, business, which is comprised of NVIDIA nForce core logic and motherboard

GPU products; and our consumer products business, or CPB, which is comprised of our GoForce brand mobile and consumer products that support handheld personal digital assistants, or PDAs, cellular phones and other handheld devices. CPB also includes license, royalty, other revenue and associated costs related to video game consoles and other digital consumer electronics devices.

In addition to these operating segments, we have the "All Other" category that includes human resources, legal, finance, general administration and corporate marketing expenses, which total $62.9 million and $58.4 million for second quarter of fiscal years 2008 and 2007, respectively, and total $130.8 million and $108.5 million for the first half of fiscal years 2008 and 2007, respectively, that we do not allocate to our other operating segments. "All Other" also includes the results of operations of other miscellaneous operating segments that are neither individually reportable, nor aggregated with another operating segment. Revenue in the "All Other" category is primarily derived from sales of components. All relevant prior period amounts have been revised to conform to the presentation of our current fiscal quarter.

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

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

	GPU	PSB	MCP	CPB	All Other	Consolidated
			(In thousands)			
Three Months Ended July 29, 2007:						
Revenue	$ 579,034	$ 127,321	$ 161,058	$ 62,182	$ 5,658	$ 935,253
Depreciation and amortization expense	$ 8,932	$ 1,960	$ 6,844	$ 5,004	$ 9,710	$ 32,450
Operating income (loss)	$ 167,828	$ 66,363	$ 12,401	$ 2,767	$ (64,599)	$ 184,760
Six Months Ended July 29, 2007:						
Revenue	$ 1,062,529	$ 268,194	$ 309,808	$ 129,408	$ 9,594	$ 1,779,533
Depreciation and amortization expense	$ 17,217	$ 4,147	$ 13,437	$ 11,099	$ 18,872	$ 64,772
Operating income (loss)	$ 292,245	$ 135,670	$ 20,240	$ 12,935	$ (135,084)	$ 326,006
Three Months Ended July 30, 2006:						
Revenue	$ 373,107	$ 117,126	$ 139,141	$ 55,693	$ 2,452	$ 687,519
Depreciation and amortization expense	$ 5,588	$ 1,659	$ 4,407	$ 5,787	$ 8,153	$ 25,594
Operating income (loss)	$ 75,330	$ 54,517	$ 7,863	$ 16,597	$ (58,491)	$ 95,816
Six Months Ended July 30, 2006:						
Revenue	$ 777,914	$ 217,168	$ 257,525	$ 113,078	$ 3,641	$ 1,369,326
Depreciation and amortization expense	$ 12,458	$ 3,487	$ 8,685	$ 9,573	$ 16,262	$ 50,465
Operating income (loss)	$ 162,569	$ 99,581	$ 10,846	$ 33,762	$ (109,433)	$ 197,325

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 29, 2007	July 30, 2006	July 29, 2007	July 30, 2006
		(In thousands)		
Revenue:				
United States	$ 72,524	$ 79,155	$ 174,390	$ 156,527
Other Americas	36,592	36,910	91,136	64,500
China	297,458	91,459	535,743	271,179
Taiwan	316,974	289,406	589,957	516,980
Other Asia Pacific	122,387	113,738	217,439	224,956

Europe	89,318	76,851	170,868	135,184
Total revenue	$ 935,253	$ 687,519	$ 1,779,533	$ 1,369,326

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

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

	Three Months Ended		Six Months Ended	
	July 29, 2007	July 30, 2006	July 29, 2007	July 30, 2006
Revenue:				
Customer A	12%	15%	11%	12%

Accounts receivable from a significant customer that represented approximately 10% or more of total accounts receivable for the respective periods, is summarized as follows:

	July 29, 2007	January 28, 2007
Accounts Receivable:		
Customer A	14%	5%
Customer B	10%	18%

Note 16 - Subsequent Event

Stock Split

On August 9, 2007, we announced that our Board approved a three-for-two stock split of our outstanding shares of common stock to be effected in the form of a stock dividend. The stock split will be effective on or about Monday, September 10, 2007 for stockholders of record at the close of business on Monday, August 20, 2007 and will entitle each stockholder of record to receive one additional share for every two outstanding shares of common stock held and cash in lieu of fractional shares. Upon the completion of the stock split, we expect to have approximately 550 million shares of common stock outstanding. If the stock split had been given retroactive effect in our Condensed Consolidated Statements of Income, our basic net income per share would have been $0.32 and $0.56 for the three and six months ended July 29, 2007, respectively, and $0.17 and $0.34 for the three and six months ended July 30, 2006, respectively. The diluted net income per share would have been $0.29 and $0.51 for the three and six months ended July 29, 2007, respectively, and $0.15 and $0.31 for the three and six months ended July 30, 2006, respectively.

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

Forward-Looking Statements

When used in this Quarterly Report on Form 10-Q, the words "believes," "plans," "estimates," "anticipates," "expects," "intends," "allows," "can," "will" and similar expressions are intended to identify forward-looking statements. These statements relate to future periods and include, but are not limited to, statements as to: the features, benefits, capabilities, performance, impact, production and availability of our technologies and products; seasonality; our strategies and objectives; gross margin; product mix; inventories; average selling prices; design wins; taxes; growth and factors contributing to growth; stock-based compensation expense; revenue; our expenditures; our capital expenditures; our cash flow and cash balances; our liquidity; uses of cash; dividends; investments and marketable securities; our stock repurchase program; our results of operations; competition; our intellectual property; our strategic relationships; customer demand; reliance on a limited number of customers, manufacturers, subcontractors and suppliers; our internal control over financial reporting; our disclosure controls and procedures; recent accounting pronouncements; our international operations; our ability to attract and retain qualified personnel; past or future acquisitions; our foreign currency risk strategy; compliance with environmental laws and regulations; litigation or regulatory action arising from the review of our stock option grant practices and financial restatements; the Department of Justice subpoena and investigation; litigation, including the class action lawsuits; and the Securities and Exchange Commission inquiry. Forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from those projected. These risks and uncertainties include, but are not limited to, the risks discussed below as well as difficulties associated with conducting international operations; slower than anticipated growth; unanticipated decreases in average selling prices of a particular product; increased sales of lower margin products; difficulty in collecting accounts receivable; our inability to adjust inventory purchase commitments; difficulties in entering new markets; the write-down of the value of inventory; entry of new competitors in our established markets; reduction in demand for our products; market acceptance of our competitors' products; defects in our products; the impact of competitive pricing pressures; disruptions in our relationships with our key suppliers; fluctuations in general economic conditions; changes in customers' purchasing behaviors; international and political conditions; the concentration of sales of our products to a limited number of customers; decreases in demand for our products; delays in the development of new products by us or our partners; delays in volume production of our products; developments in and expenses related to litigation; our inability to realize the benefits of acquisitions; the outcome of litigation or regulatory actions; and the matters set forth under Item 1A. - Risk Factors. These forward-looking statements speak only as of the date hereof. Except as required by law, we expressly disclaim any obligation or undertaking to release publicly any updates or revisions to any forward-looking statements contained herein to reflect any change in our expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

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

NVIDIA, GeForce, SLI, GoForce, NVIDIA Quadro, Quadro, NVIDIA nForce, NVIDIA Tesla and the NVIDIA logo are our trademarks or registered trademarks in the United States and other countries that are used in this document. We may also refer to trademarks of other corporations and organizations in this document.

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with "Item 1A. Risk Factors", our Condensed Consolidated Financial Statements and related Notes thereto, as well as other cautionary statements and risks described elsewhere in this quarterly report on Form 10-Q, before deciding to purchase, hold or sell shares of our common stock.

Overview

Our Company

NVIDIA Corporation is the worldwide leader in programmable graphics processor technologies. Our products are designed to enhance the end-user experience on consumer and professional computing devices. We have four major product-line operating segments: the graphics processing unit, or GPU, business, the professional solutions business, or PSB, the media and communications processor, or MCP, business, and the consumer products business, or CPB.

Our GPU business is comprised primarily of our GeForce products that support desktop and notebook PCs, plus memory products. Our PSB is comprised of our NVIDIA Quadro professional workstation products and other professional graphics products, including our NVIDIA Tesla high-performance computing products. Our MCP business is comprised of NVIDIA nForce core logic and motherboard GPU products. Our CPB is comprised of our GoForce brand mobile and consumer products that support handheld personal digital assistants, or PDAs, cellular phones and other handheld devices. CPB also includes license, royalty, other revenue and associated costs related to video game consoles and other digital consumer electronics devices.

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

Recent Developments, Future Objectives and Challenges

GPU Business

During the first half of our fiscal year 2008, our GeForce product was the share leader in the Standalone Desktop and Standalone Notebook segments as reported in the latest PC Graphics 2007 Report from Mercury Research for the first half of calendar year 2007.

During the first half of fiscal year 2008, we launched several new DirectX10 GPUs, adding the GeForce 8800 Ultra, GeForce 8600, GeForce 8500, and GeForce 8300 to our GeForce 8 series of GPUs, which previously included the NVIDIA GeForce 8800 GTX and GeForce 8800 GTS.

During the second quarter of fiscal year 2008, we maintained our leading share in both the DirectX9 and DirectX10 generation of desktop GPUs.

During the second quarter of fiscal year 2008, we launched a new family of GeForce 8M Series notebook GPUs. We also supported the production ramp of top notebook PC OEMs, including Acer, Apple, ASUS, Dell, HP, Lenovo, Samsung, Sony and Toshiba.

Professional Solutions Business

During the first quarter of fiscal year 2008, we launched the NVIDIA Quadro FX 4600 and NVIDIA Quadro FX 5600 products, which are professional solutions based on our GeForce 80 unified architecture.

During the first quarter of fiscal year 2008, we expanded our NVIDIA Quadro Plex family with the introduction of the NVIDIA Quadro Plex VCS IV, a new version of the NVIDIA Quadro Plex visual computing system, or VCS, which provides enhanced performance for a wide range of high-performance, graphics-intensive styling and design, oil and gas, and scientific applications.

During the second quarter of fiscal year 2008, we announced Tesla, our entry into the high-performance computing industry. The Tesla family consists of the C870 GPU Computing processor, the D870 Deskside Supercomputer and the S870 1U Computing Server.

During the second quarter of fiscal year 2008, we introduced a new line of notebook workstation GPUs based on our GeForce 8 series architecture. The new line consists of the NVIDIA Quadro FX 1600M, 570M and 360M.

MCP Business

During the first half of our fiscal year 2008, our NVIDIA nForce products held the leadership position for the AMD segment as reported in the latest PC Processor and Chipsets report from Mercury Research for the first half of calendar year 2007.

During the first quarter of fiscal year 2008, we shipped the GeForce 7050 motherboard GPU, which targets the lower cost segments of the market.

During the first quarter of fiscal year 2008, we extended the reach of Scalable Link Interface, or SLI, technology into the performance segments with the launch of our NVIDIA nForce 650i SLI, 680i LT SLI and 680i Ultra MCP products for Intel.

Consumer Products Business

During the first quarter of fiscal 2008, we unveiled our first applications processor - the GoForce 6100. The GoForce 6100 is designed for next generation personal media players, or PMPs, and multimedia smart phones. We expect that designs based on the GoForce 6100 will ship later this fiscal year.

Gross Margin Improvement

We continue to remain focused on improving our gross margin. During the second quarter of fiscal 2008, our gross margin was 45.3%, an increase of 280 basis points from our gross margin of 42.5% for the second quarter of fiscal year 2007.

Our gross margin is significantly impacted by the mix of products that we earn revenue from during each of our fiscal quarters. Product mix is often difficult to estimate with accuracy and, thus, 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. We expect to continue to focus on improving our gross margin during the remainder of fiscal 2008.

Seasonality

Our industry is largely focused on the consumer products market. Due to the seasonality in this market, we typically expect to see stronger revenue performance in the second half of the calendar year related to the back-to-school and holiday seasons.

Subsequent Event

Stock Split

On August 9, 2007, we announced that our Board of Directors, or the Board, approved a three-for-two stock split of our outstanding shares of common stock to be effected in the form of a stock dividend. The stock split will be effective on or about Monday, September 10, 2007 for stockholders of record at the close of business on Monday, August 20, 2007 and will entitle each stockholder of record to receive one additional share for every two outstanding shares of common stock held and cash in lieu of fractional shares. Upon the completion of the stock split, we expect to have approximately 550 million shares of common stock outstanding. If the stock split had been given retroactive effect in our Condensed Consolidated Statements of Income, our basic net income per share would have been $0.32 and $0.56 for the three and six months ended July 29, 2007, respectively, and $0.17 and $0.34 for the three and six months ended July 30, 2006, respectively. The diluted net income per share would have been $0.29 and $0.51 for the three and six months ended July 29, 2007, respectively, and $0.15 and $0.31 for the three and six months ended July 30, 2006, respectively.

Financial Information by Business Segment and Geographic Data

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

During the first quarter of fiscal 2008, we reorganized our operating segments. We now report financial information for four operating segments to our CODM: the graphics processing unit, or GPU, business, which is comprised primarily of our GeForce products that support desktop and notebook PCs, plus memory products, the professional solutions business, or PSB, which is comprised of our NVIDIA Quadro professional workstation products and other professional graphics products, including our NVIDIA Tesla high-performance computing products, the media and communications processor, or MCP, business, which is comprised of NVIDIA nForce core logic and motherboard GPU products, and our consumer products business, or CPB, which is comprised of mobile and consumer products that support handheld personal digital assistants, or PDAs, cellular phones and other handheld devices and license, royalty, other revenue and associated costs related to video game consoles and other digital consumer electronics devices.

In addition to these operating segments, we have the "All Other" category that includes human resources, legal, finance, general administration and corporate marketing expenses, which total $62.9 million and $58.4 million for second quarter of fiscal years 2008 and 2007, respectively, and total $130.8 million and $108.5 million for the first half of fiscal years 2008 and 2007, respectively, that we do not allocate to our other operating segments. "All Other" also includes the results of operations of other miscellaneous operating segments that are neither individually reportable, nor aggregated with another operating segment. Revenue in the "All Other" category is primarily derived from sales of components. All relevant prior period amounts have been revised to conform to the presentation of our current fiscal quarter.

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

Results of Operations

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

	Three Months Ended		Six Months Ended	
	July 29, 2007	July 30, 2006	July 29, 2007	July 30, 2006
Revenue	100.0%	100.0%	100.0%	100.0%
Cost of revenue	54.7	57.5	54.8	57.6
Gross profit	45.3	42.5	45.2	42.4
Operating expenses:				
Research and development	16.9	18.6	17.8	18.3
Sales, general and administrative	8.7	10.0	9.1	9.7
Total operating expenses	25.6	28.6	26.9	28.0
Operating income	19.7	13.9	18.3	14.4
Interest and other income, net	1.7	1.3	1.6	1.3
Income before income tax expense	21.4	15.2	19.9	15.7
Income tax expense	3.0	2.6	2.8	2.7
Cumulative effect of change in accounting principle	—	—	—	0.1
Net income	18.4%	12.6%	17.1%	13.1%

Three and Six months Ended July 29, 2007 and July 30, 2006

Revenue

Revenue was $935.3 million for our second quarter of fiscal year 2008, compared to $687.5 million for our second quarter of fiscal year 2007, which represents an increase of 36.0%. Revenue was $1.78 billion for the first half of fiscal 2008 and $1.37 billion for the first half of fiscal 2007, which represented an increase of 30.0%. A discussion of our revenue results for each of our operating segments is as follows:

GPU Business. GPU Business revenue increased by 55.2% to $579.0 million in the second quarter of fiscal year 2008, compared to $373.1 million for the second quarter of fiscal year 2007. This increase was primarily due to increased sales of our desktop GPU products and notebook GPU products. Sales of our desktop GPU products increased by approximately 37% compared to the second quarter of fiscal year 2007. This increase was for the most part due to share gains we experienced in the Standalone Desktop segment as reported in the latest PC Graphics 2007 Report from Mercury Research which was driven by the leadership position of our top to bottom GeForce 8-based family. Sales of our NVIDIA notebook GPU products increased by approximately 129% compared to the second quarter of fiscal year 2007. Notebook GPU revenue growth was mostly due to share gains in the Standalone Notebook segment as reported in the latest PC Graphics 2007 Report from Mercury Research. Our share gains in the Standalone Notebook segment were primarily as a result of shipments of products used in notebook PC design wins related to Intel's new Santa Rosa platform.

GPU Business revenue increased by 36.6% to $1.06 billion for the first half of fiscal 2008, compared to $777.9 million for the first half of fiscal 2007. This increase was primarily the result of increased sales across all GPU categories. Sales of our desktop GPU products increased approximately 25% and notebook GPU products increased by approximately 101% as compared to the first half of fiscal year 2007. This increase for the most part was due to share gains in the Standalone Desktop and the Standalone Notebook segments as reported in the latest PC Graphics 2007 Report from Mercury Research. Our share gains in the Standalone Desktop segment were primarily driven by the leadership position of our GeForce 8-based products and our share gains in the Standalone Notebook segment were primarily the result of shipments of products used in notebook PC design wins related to Intel's new Santa Rosa platform.

PSB. PSB revenue increased by 8.7% to $127.3 million in the second quarter of fiscal year 2008, compared to $117.1 million for the second quarter of fiscal year 2007. PSB revenue increased by 23.5% to $268.2 million for the first half of fiscal 2008 as compared to $217.2 million for the first half of fiscal 2007. Our NVIDIA professional workstation product sales increased due to an overall increase in shipments of boards and chips as compared to the second quarter and first half of fiscal year 2007. This increase was primarily driven by our transition from previous generation of NVIDIA Quadro professional workstation products to GeForce 7-based and GeForce 8-based products.

MCP Business. MCP Business revenue increased by 15.8% to $161.1 million in the second quarter of fiscal year 2008, compared to $139.1 million for the second quarter of fiscal year 2007. The increase was a result of an approximately 17% increase in sales of our AMD-based platform products and over an 100% increase in sales of our Intel-based platform products as compared to the second quarter of fiscal year 2007. The increase in our AMD-based platform products was led by sales of notebook graphics products and by our ramping up shipments of our Intel-based platform products after the third quarter of fiscal year 2007. These increases were offset by a decline in sales of products related to our acquisition of ULi Electronics, Inc.

MCP business revenue increased by 20.3% to $309.8 million for the first half of fiscal 2008 as compared to $257.5 million for the first half of fiscal 2007. The increase was a result of an approximately 15% increase in sales of our AMD-based platform products and over a 200% increase in sales of our Intel-based platform products as compared to the first half of fiscal year 2007. The increase in our AMD-based platform products was led by sales of notebook graphics products and by our ramping up shipments of our Intel-based platform products after the third quarter of fiscal year 2007. These increases were offset by a decline in sales of products related to our acquisition of ULi Electronics, Inc.

CPB. CPB revenue increased by 11.7% to $62.2 million for the second quarter of fiscal year 2008, compared to $55.7 million for the second quarter of fiscal year 2007. CPB revenue increased by 14.4% to $129.4 million for the first half of fiscal 2008 as compared to $113.1 million for the first half of fiscal 2007. The overall increase in CPB revenue is primarily due to increased revenue from our digital consumer electronics devices and sales related to our acquisition of PortalPlayer Inc., or PortalPlayer, in January 2007. These increases were offset by a decrease in revenue from our cell phone products and contractual development arrangements with Sony Computer Entertainment, or SCE.

Concentration of Revenue

Revenue from sales to customers outside of the United States and other Americas accounted for 88.3% and 83.1% of total revenue for the second quarter of fiscal years 2008 and 2007, respectively, and 85.1% and 83.9% for the first half of fiscal years 2008 and 2007, respectively. Revenue by geographic region is allocated to individual countries based on the location to which the products are initially billed even if the foreign contract equipment manufacturers, or CEMs', add-in board and motherboard manufacturers' revenue is attributable to end customers in a different location.

In the second quarter of fiscal years 2008 and 2007, sales to one significant customer, in excess of 10% of our total revenue, accounted for approximately 12% and 15%, respectively, of our total revenue. Sales to our largest customer accounted for approximately 11% and approximately 12% of our total revenue for the first half of fiscal years 2008 and 2007, 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 provisions and shipping costs. Cost of revenue also includes development costs for license and service arrangements.

Gross margin is the percentage of gross profit to revenue. Our gross margin can vary in any period depending on the mix of types of products sold. Our gross margin was 45.3% and 42.5% for the second quarter of fiscal year 2008 and 2007, respectively. The improvement in our gross margin reflects our continuing focus on delivering cost effective product architectures, enhancing business processes and delivering profitable growth. Our gross margin is significantly impacted by the mix of products we sell. Product mix is often difficult to estimate with accuracy and, thus, 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. We expect gross margin to remain relatively flat, or improve slightly, during the third quarter of fiscal year 2008. 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 during the second quarter of fiscal year 2008 as compared to the second quarter of fiscal year 2007, as well as during the first half of fiscal year 2008 as compared to the first half of fiscal year 2007. This increase was primarily due to increased sales of our GeForce 8 series GPUs, which began selling in the third quarter of fiscal year 2007. Our GeForce 8 series and our GeForce 7 series GPUs generally have higher gross margins than our previous generations of GPUs. Additionally, the costs of memory purchases were more favorable during the second quarter of fiscal year 2008.

PSB. The gross margin of our PSB increased during the second quarter of fiscal year 2008 as compared to the second quarter fiscal year 2007, as well as during the first half of fiscal year 2008 as compared to the first half of fiscal year 2007. This increase was primarily due to increased sales of our GeForce 8-based NVIDIA Quadro products, which began selling in the fourth quarter of fiscal year 2007, and GeForce 7-based NVIDIA Quadro products, which generally have higher gross margins than our previous generations of NVIDIA Quadro products.

MCP Business. The gross margin of our MCP Business increased during the second quarter of fiscal year 2008 as compared to the second quarter fiscal year 2007, as well as during the first half of fiscal year 2008 as compared to the first half of fiscal year 2007. This increase was primarily due to a shift in product mix towards Intel-based platform products, of which we began to ramp up shipment after the third quarter of fiscal year 2007, and inventory reserves that we recorded as a charge to cost of revenue during the first quarter of fiscal 2007 of approximately $4.1 million related to certain NVIDIA nForce purchase commitments that we believed had exceeded future demand.

CPB. The gross margin of our CPB decreased during the second quarter of fiscal year 2008 as compared to the second quarter fiscal year 2007, as well as during the first half of fiscal year 2008 as compared to the first half of fiscal year 2007. This decrease was primarily due to a drop in gross profit realized from sales of our high-end feature cellular phone and other handheld devices.

Operating Expenses

Research and Development

	Three Months Ended (in millions)				Six Months Ended (in millions)			
	July 29, 2007	**July 30, 2006**	**$ Change**	**% Change**	**July 29, 2007**	**July 30, 2006**	**$ Change**	**% Change**
Research and Development:								
Salaries and benefits	$ 89.8	$ 67.0	$ 22.8	34%	$ 177.5	$ 135.0	$ 42.5	31%
Depreciation and amortization	17.2	15.1	2.1	14%	33.7	30.1	3.6	12%
Stock-based compensation	16.4	16.6	(0.2)	(1)%	38.8	31.0	7.8	25%
Computer software and lab equipment	15.6	13.4	2.2	16%	30.5	26.3	4.2	16%
Facility expense	12.7	8.8	3.9	44%	24.4	16.9	7.5	44%
New product development	2.6	7.3	(4.7)	(64)%	6.8	14.8	(8.0)	(54)%
License and development project costs	(1.5)	(4.9)	3.4	(69)%	(3.9)	(10.7)	6.8	(64)%
Other	5.2	4.0	1.2	30%	8.5	7.1	1.4	20%
Total	$ 158.0	$ 127.3	$ 30.7	24%	$ 316.3	$ 250.5	$ 65.8	26%