NVIDIA CORP
Form 10-Q
May 22, 2013

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 April 28, 2013
OR
[_] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
Commission file number: 0-23985
NVIDIA CORPORATION
(Exact name of registrant as specified in its charter)

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

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

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

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

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

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

Accelerated filer o

Large accelerated filer x

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

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

The number of shares of common stock, $0.001 par value, outstanding as of May 17, 2013, was 577,916,410.

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WHERE YOU CAN FIND MORE INFORMATION

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

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

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

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

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

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

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)

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

	Three Months Ended April 28, 2013	April 29, 2012
Revenue	$954,739	$924,877
Cost of revenue	436,171	461,513
Gross profit	518,568	463,364
Operating expenses		
Research and development	327,161	283,902
Sales, general and administrative	108,626	106,636
Total operating expenses	435,787	390,538
Income from operations	82,781	72,826
Interest income	5,076	5,198
Other income (expense), net	205	(929)
Income before income tax expense	88,062	77,095
Income tax expense	10,171	16,658
Net income	$77,891	$60,437
Basic net income per share	$0.13	$0.10
Shares used in basic per share computation	616,872	615,780
Diluted net income per share	$0.13	$0.10
Shares used in diluted per share computation	619,302	623,786
Cash dividends declared and paid per common share	$0.075	$—

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	Three Months Ended	
	April 28, 2013	April 29, 2012
Net income	$77,891	$60,437
Other comprehensive income (loss), net of tax:		
Net change in unrealized gains (losses) on available-for-sale securities, net of tax effect of ($277) and $21 in first quarter of fiscal years 2014 and 2013, respectively	391	(81)
Reclassification adjustments for net realized gains on available-for-sale securities included in net income, net of tax effect of $43 and $46 in the first quarter of fiscal years 2014 and 2013, respectively	(79)	(86)
Other comprehensive income (loss)	$312	$(167)
Total comprehensive income	$78,203	$60,270

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	April 28, 2013	January 27, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	$561,423	$732,786
Marketable securities	3,151,928	2,995,097
Accounts receivable, net	346,998	454,252
Inventories	377,597	419,686
Prepaid expenses and other	62,334	69,701
Deferred income taxes	106,336	103,736
Total current assets	4,606,616	4,775,258
Property and equipment, net	588,023	576,144
Goodwill	641,030	641,030
Intangible assets, net	336,733	312,332
Other assets	107,125	107,481
Total assets	$6,279,527	$6,412,245
LIABILITIES AND STOCKHOLDERS’ EQUITY		
Current liabilities:		
Accounts payable	$328,259	$356,428
Accrued liabilities and other	597,318	619,795
Total current liabilities	925,577	976,223
Other long-term liabilities	510,681	589,321
Capital lease obligations, long-term	18,333	18,998
Commitments and contingencies - see Note 11	—	—
Stockholders’ equity:		
Preferred stock	—	—
Common stock	725	720
Additional paid-in capital	3,273,230	3,193,623
Treasury stock, at cost	(1,737,025)	(1,622,709)
Accumulated other comprehensive income	10,293	9,981
Retained earnings	3,277,713	3,246,088
Total stockholders' equity	4,824,936	4,827,703
Total liabilities and stockholders' equity	$6,279,527	$6,412,245

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	Three Months Ended	
	April 28, 2013	April 29, 2012
Cash flows from operating activities:		
Net income	$77,891	$60,437
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	59,744	54,491
Stock-based compensation expense	33,397	35,569
Deferred income taxes	(3,063)	3,630
Excess tax benefits from stock-based compensation	(10,120)	(8,675)
Other	4,988	5,451
Changes in operating assets and liabilities, net of effect of acquisition:		
Accounts receivable	108,476	(75,369)
Inventories	41,510	(2,191)
Prepaid expenses and other current assets	7,367	(48,100)
Other assets	1,806	(1,882)
Accounts payable	(53,101)	33,516
Accrued liabilities and other long-term liabilities	(93,245)	(66,085)
Net cash provided by (used in) operating activities	175,650	(9,208)
Cash flows from investing activities:		
Purchases of marketable securities	(541,950)	(814,222)
Proceeds from sales and maturities of marketable securities	378,281	507,875
Purchases of property and equipment and intangible assets	(65,667)	(28,923)
Acquisition of businesses, net of cash acquired	—	—
Other	(1,450)	216
Net cash used in investing activities	(230,786)	(335,054)
Cash flows from financing activities:		
Proceeds from issuance of common stock under employee stock plans	22,996	37,361
Payments under capital lease obligations	(576)	(515)
Excess tax benefits from stock-based compensation	10,120	8,675
Payments for repurchases of common stock	(100,000)	—
Dividend paid	(46,267)	—
Other	(2,500)	—
Net cash provided by (used in) financing activities	(116,227)	45,521
Change in cash and cash equivalents	(171,363)	(298,741)
Cash and cash equivalents at beginning of period	732,786	667,876
Cash and cash equivalents at end of period	$561,423	$369,135
Supplemental disclosures of cash flow information:		
Cash paid or received for income taxes, net	$2,286	$2,010
Cash paid for interest on capital lease obligations	$655	$744
Other non-cash activities:		
Assets acquired by assuming related liabilities	$41,341	$55,256
Change in unrealized gains (losses) from marketable securities	$312	$(167)

See accompanying Notes to Condensed Consolidated Financial Statements.

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

Note 1 - Summary of Significant Accounting Policies

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements were prepared in accordance with accounting principles generally accepted in the United States of America, or U.S. GAAP, for interim financial information and with the instructions to Form 10-Q and Article 10 of Securities and Exchange Commission, or SEC, Regulation S-X. In the opinion of management, all adjustments, consisting only of normal recurring adjustments except as otherwise noted, considered necessary for a fair statement of results of operations and financial position have been included. The results for the interim periods presented are not necessarily indicative of the results expected for any future period. The following information should be read in conjunction with the audited financial statements and notes thereto included in our Annual Report on Form 10-K for the fiscal year ended January 27, 2013.

Fiscal Year

We operate on a 52- or 53-week year, ending on the last Sunday in January. Fiscal year 2014 and fiscal year 2013 are both 52-week years. The first quarters of fiscal years 2014 and 2013 are both 13-week quarters.

Principles of Consolidation

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

Reclassifications

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

Use of Estimates

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

Revenue Recognition

Product Revenue

We recognize revenue from product sales when persuasive evidence of an arrangement exists, the product has been delivered, the price is fixed or determinable and collection of the related receivable 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. At the point of sale, we assess whether the arrangement fee is fixed or determinable and whether collection is reasonably assured. If we determine that collection of a fee is not reasonably assured, we defer the fee and recognize revenue at the time collection becomes reasonably assured, which is generally upon receipt of payment.

Our policy on sales to certain distributors, with rights of return, is to defer recognition of revenue and related cost of revenue until the distributors resell the product, as the level of returns cannot be reasonably estimated. Our customer programs primarily involve rebates, which are designed to serve as sales incentives to resellers of our products in various target markets. We accrue for 100% of the potential rebates and do not apply a breakage factor. We recognize a liability for these rebates at the later of the date at which we record the related revenue or the date at which we offer the rebate. Rebates typically expire six months from the date of the original sale, unless we reasonably believe that the customer intends to claim the rebate. Unclaimed rebates are reversed to revenue.

Our customer programs also include marketing development funds, or MDFs. We account for MDFs as either a reduction of revenue or an operating expense, depending on the nature of the program. MDFs represent monies paid to retailers, system builders, original equipment manufacturers, 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 the related revenue over the period that services are performed. For most license and service arrangements, we determine progress to completion based on actual direct labor hours incurred to date as a percentage of the estimated total direct labor hours required to complete the project. We periodically evaluate the actual status of each project to ensure that the estimates to complete each contract remain accurate. A provision for estimated losses on contracts is made in the period in which the loss becomes probable and can be reasonably estimated. Costs incurred in advance of revenue recognized are recorded as deferred costs on uncompleted contracts. If the amount billed exceeds the amount of revenue recognized, the excess amount is recorded as deferred revenue. Revenue recognized in any period is dependent on our progress toward completion of projects in progress. Significant management judgment and discretion are used to estimate total direct labor hours. Any changes in or deviations from these estimates could have a material effect on the amount of revenue we recognize in any period.

For license arrangements that do not require significant customization but where we are obligated to provide further deliverables over the term of the license agreement, we record revenue over the life of the license term, with consideration received in advance of the performance period classified as deferred revenue.

Royalty revenue is recognized related to the distribution or sale of products that use our technologies under license agreements with third parties. We recognize royalty revenue upon receipt of a confirmation of earned royalties and when collectability is reasonably assured from the applicable licensee.

Inventories

Inventory cost is computed on an adjusted standard basis, which approximates actual cost on an average or first-in, first-out basis. Inventory costs consist primarily of the cost of semiconductors purchased from subcontractors, including wafer fabrication, assembly, testing and packaging, manufacturing support costs, including labor and overhead associated with such purchases, final test yield fallout, inventory provisions and shipping costs. We write down our inventory to the lower of cost or estimated market value. Excess, obsolete or unmarketable inventory is completely written off based upon assumptions about future demand, future product purchase commitments, estimated manufacturing yield levels and market conditions. If actual market conditions are less favorable than those projected by management, or if our current inventory or future product purchase commitments to our suppliers exceed our forecasted future demand for such products, additional future inventory write-downs may be required that could adversely affect our operating results. Inventory reserves once established are not reversed until the related inventory has been sold or scrapped. If actual market conditions are more favorable than expected and we sell products that we have previously written down, our reported gross margin would be favorably impacted.

Adoption of New and Recently Issued Accounting Pronouncements

In February 2013, the Financial Accounting Standards Board issued updated authoritative guidance requiring entities to report the effect of significant reclassifications out of accumulated other comprehensive income on the respective line items in net income if the amount being reclassified is required under U.S. GAAP to be reclassified in its entirety to net income. For other amounts that are not required under U.S. GAAP to be reclassified in their entirety from accumulated other comprehensive income to net income in the same reporting period, an entity is required to cross-reference other disclosures required under U.S. GAAP that provide additional detail about those amounts. We adopted this guidance in our interim period ended April 28, 2013. The adoption of this guidance did not impact our financial statements, as the guidance is related to disclosure only, and we have not had significant reclassifications out of accumulated other comprehensive income.

Note 2 - Stock-Based Compensation

We measure stock-based compensation expense based on the estimated fair value of equity awards at the grant date, and recognize the expense using a straight-line attribution method over the requisite employee service period. We estimate the fair value of employee stock options on the date of grant using a binomial model and we use the closing trading price of our common stock on the date of grant, minus a dividend yield discount, as the fair value of awards of restricted stock units, or RSUs. We estimate the fair value of shares to be issued under our employee stock purchase plan using the Black-Scholes model at the commencement of an offering period in March and September of each year. Stock-based compensation for our employee stock purchase plan is expensed using an accelerated amortization model.

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

	Three Months Ended	
	April 28, 2013	April 29, 2012
	(In thousands)	
Cost of revenue	$2,653	$2,526
Research and development	21,935	21,207
Sales, general and administrative	8,809	11,836
Total	$33,397	$35,569

During the three months ended April 28, 2013, we granted approximately 2.8 million stock options, with an estimated total grant-date fair value of $8.7 million and a weighted average grant-date fair value of $3.11 per option. During the three months ended April 28, 2013, we granted approximately 4.9 million RSUs with an estimated total grant-date fair value of $57.4 million and a weighted average grant-date fair value of $11.72 per RSU.

During the three months ended April 29, 2012, we granted approximately 2.9 million stock options, with an estimated total grant-date fair value of $16.2 million and a weighted average grant-date fair value of $5.52 per option. During the three months ended April 29, 2012, we granted approximately 3.3 million RSUs with an estimated total grant-date fair value of $48.2 million and a weighted average grant-date fair value of $14.58 per RSU.

Of the estimated total grant-date fair value, we estimated that the stock-based compensation expense related to the equity awards that were not expected to vest was $11.8 million and $11.5 million for the three months ended April 28, 2013 and April 29, 2012, respectively. As of April 28, 2013 and April 29, 2012, the aggregate amount of unearned stock-based compensation expense related to our equity awards was $238.4 million and $212.9 million, respectively, adjusted for estimated forfeitures. As of April 28, 2013 and April 29, 2012, we expected to recognize the unearned stock-based compensation expense related to stock options over an estimated weighted average amortization period of 2.8 years and 2.7 years, respectively. As of April 28, 2013 and April 29, 2012, we expected to recognize the unearned stock-based compensation expense related to RSUs over an estimated weighted average amortization period of 3.0 years and 2.8 years, respectively.

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

Valuation Assumptions

We determine the fair value of stock option awards on the date of grant using an option-pricing model that is affected by our stock price as well as assumptions regarding a number of highly complex and subjective variables. These variables include, but are not limited to, weighted average expected term, risk-free interest rate, expected stock price volatility, dividend yield, actual and projected employee stock option exercise behaviors, vesting schedules and death and disability probabilities. We segregate options into groups of employees with relatively homogeneous exercise behavior in order to calculate the best estimate of fair value using the binomial valuation model. The expected life of employee stock options is a derived output of our valuation model and is impacted by the underlying assumptions of our company. The risk-free interest rate assumption is based upon observed interest rates on Treasury bills appropriate for the term of our employee stock options. Our management has determined that the use of implied volatility is expected to be more reflective of market conditions and, therefore, can reasonably be expected to be a better indicator of our expected volatility than historical volatility. Dividend yield is based on history and expectation of dividend payouts. Our RSU awards are not eligible for cash dividends prior to vesting; therefore, the fair value of RSUs is discounted by the dividend yield.

Prior to the initial declaration of a quarterly cash dividend on November 8, 2012, the fair value of our equity awards was based on an expected dividend yield of 0% reflecting our prior history in which we had not paid and did not expect to pay cash dividends on our common stock. For awards granted on or subsequent to November 8, 2012, we now use a dividend yield at grant date based on the per share dividends declared during the most recent quarter.

Additionally, for employee stock option and RSU awards, we estimate forfeitures annually and revise the estimates of forfeiture 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 accounting standards in future periods, the compensation expense that we record under these accounting standards may differ significantly from what we have recorded in the current period.

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

	Three Months Ended	
	April 28, 2013	April 29, 2012
Stock Options	(Using a binomial model)	
Expected life (in years)	3.2 - 3.3	4.2 - 4.7
Risk-free interest rate	1.8% - 2.1%	2.0% - 2.3%
Volatility	32% - 37%	43% - 46%
Dividend yield	2.3% - 2.4%	—

	Three Months Ended	
	April 28, 2013	April 29, 2012
Employee Stock Purchase Plan	(Using a Black-Scholes model)	
Expected life (in years)	0.5 - 2.0	0.5 - 2.0
Risk-free interest rate	0.1% - 0.3%	0.1% - 0.3%
Volatility	37 %	44 %
Dividend yield	2.4 %	—

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

Equity Award Activity

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

Stock Options	Options Outstanding (In thousands)	Weighted Average Exercise Price (Per share)
Balances, January 27, 2013	32,995	$14.66
Granted	2,808	$12.62
Exercised	(352)	$8.41
Cancelled	(1,703)	$19.52
Balances, April 28, 2013	33,748	$14.31

Restricted Stock Units	RSUs Outstanding (In thousands)	Weighted Average Grant-Date Fair Value (Per share)
Balances, January 27, 2013	15,159	$14.46
Granted	4,898	$11.72
Vested	(3,238)	$15.45
Cancelled	(242)	$14.08
Balances, April 28, 2013	16,577	$13.46

Note 3 – Net Income Per Share

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

	Three Months Ended	
	April 28, 2013	April 29, 2012
	(In thousands, except per share data)	
Numerator:		
Net income	$77,891	$60,437
Denominator:		
Denominator for basic net income per share, weighted average shares	616,872	615,780
Effect of dilutive securities:		
Equity awards outstanding	2,430	8,006
Denominator for diluted net income per share, weighted average shares	619,302	623,786
Net income per share:		
Basic net income per share	$0.13	$0.10
Diluted net income per share	$0.13	$0.10
Potentially dilutive securities excluded from income per diluted share because their effect would have been anti-dilutive	26,112	23,430

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

Note 4 – Income Taxes

We recognized income tax expense of $10.2 million and $16.7 million for the three months ended April 28, 2013 and April 29, 2012, respectively. Income tax expense as a percentage of income before taxes, or our effective tax rate, was 11.6% and 21.6% for the three months ended April 28, 2013 and April 29, 2012, respectively.

The decrease in our effective tax rate in fiscal year 2014 as compared to the same period in the prior fiscal year was primarily related to the benefit of the U.S. federal research tax credit which was re-enacted on January 2, 2013 under the American Taxpayer Relief Act, and favorable discrete events that occurred in the first three months of fiscal year 2014 primarily attributable to the expiration of statute of limitation in certain non-U.S. jurisdictions.

Our effective tax rate on income before tax for the first three months of fiscal year 2014 of 11.6% and fiscal year 2013 of 21.6% were lower than the United States federal statutory rate of 35% due primarily to income earned in jurisdictions where the tax rate is lower than the United States federal statutory tax, and for fiscal year 2014 due to the benefit of the U.S. federal research tax credit.

For the three months ended April 28, 2013, there have been no material changes to our tax years that remain subject to examination by major tax jurisdictions. Additionally, there have been no other material changes to our unrecognized tax benefits and any related interest or penalties from our fiscal year ended January 27, 2013, other than the recognition of tax benefits related to the expiration of statute of limitation in certain non-U.S. jurisdictions in the three months ended April 28, 2013.

While we believe that we have adequately provided for all uncertain tax positions, or tax positions where it is believed not more-likely-than-not that the position will be sustained upon examination, amounts asserted by tax authorities could be greater or less than our accrued position. Accordingly, our provisions on federal, state and foreign tax related matters to be recorded in the future may change as revised estimates are made or the underlying matters are settled or otherwise resolved with the respective tax authorities. As of April 28, 2013, 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.

Note 5 - Marketable Securities

All of our cash equivalents and marketable securities are classified as “available-for-sale” securities. These securities are reported at fair value with the related unrealized gains and losses included in accumulated other comprehensive income, a component of stockholders’ equity, net of tax.

We performed an impairment review of our investment portfolio as of April 28, 2013. Based on our quarterly impairment review and having considered the guidance in the relevant accounting literature, we concluded that our investments were appropriately valued and that no other than temporary impairment charges were necessary on our portfolio as of April 28, 2013. The following is a summary of cash equivalents and marketable securities at April 28, 2013 and January 27, 2013:

	April 28, 2013			
	Amortized Cost	Unrealized Gain	Unrealized Loss	Estimated Fair Value
	(In thousands)			
Debt securities of United States government agencies	$1,007,499	$1,609	$(34)	$1,009,074
Corporate debt securities	1,235,850	3,492	(618)	1,238,724
	184,927	5,845	(235)	190,537

Mortgage backed securities issued by United States government-sponsored enterprises				
Money market funds	39,350	—	—	39,350
Debt securities issued by United States Treasury	723,879	1,332	(18)	725,193
Total	$3,191,505	$12,278	$(905)	$3,202,878
Classified as:				
Cash equivalents				$50,950
Marketable securities				3,151,928
Total				$3,202,878

	January 27, 2013			
	Amortized Cost	Unrealized Gain	Unrealized Loss	Estimated Fair Value
	(In thousands)			
Debt securities of United States government agencies	$867,087	$1,199	$(139)	$868,147
Corporate debt securities	1,255,297	3,175	(542)	1,257,930
Mortgage backed securities issued by United States government-sponsored enterprises	183,034	6,194	(57)	189,171
Money market funds	195,790	—	—	195,790
Debt securities issued by United States Treasury	785,228	1,102	(105)	786,225
Total	$3,286,436	$11,670	$(843)	$3,297,263
Classified as:				
Cash equivalents				$302,166
Marketable securities				2,995,097
Total				$3,297,263

The amortized cost and estimated fair value of cash equivalents and marketable securities which are primarily debt instruments are classified as available-for-sale at April 28, 2013 and January 27, 2013 and are shown below by contractual maturity.

	April 28, 2013		January 27, 2013	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
	(In thousands)			
Less than one year	$1,337,236	$1,339,144	$1,397,350	$1,399,304
Due in 1 - 5 years	1,751,183	1,757,767	1,777,785	1,783,103
Mortgage-backed securities issued by government-sponsored enterprises not due at a single maturity date	103,086	105,967	111,301	114,856
Total	$3,191,505	$3,202,878	$3,286,436	$3,297,263

Net realized gains for the three months ended April 28, 2013 and April 29, 2012 were not significant.

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

Note 6 – Fair Value of Cash Equivalents and Marketable Securities

We measure our cash equivalents and marketable securities at fair value. The fair values of our financial assets and liabilities are determined using quoted market prices of identical assets or quoted market prices of similar assets from active markets. Our Level 1 assets consist of our money market fund deposits. We classify securities within Level 1 assets when the fair value is obtained from real time quotes for transactions in active exchange markets involving identical assets. Our available-for-sale securities are classified as having Level 2 inputs. Our Level 2 assets are valued utilizing a market approach where the market prices of similar assets are provided by a variety of independent industry standard data providers to our investment custodian. There were no significant transfers between Levels 1 and 2 assets for the three months ended April 28, 2013.

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

	Fair Value Measurement at Reporting Date Using		
	April 28, 2013	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
	(In thousands)		
Debt securities issued by United States government agencies (1)	$1,009,074	$—	$1,009,074
Debt securities issued by United States Treasury (2)	725,193	—	725,193
Corporate debt securities (3)	1,238,724	—	1,238,724
Mortgage-backed securities issued by government-sponsored entities (2)	190,537	—	190,537
Money market funds (4)	39,350	39,350	—
Total cash equivalents and marketable securities	$3,202,878	$39,350	$3,163,528

(1) Includes $2.4 million in Cash Equivalents and $1,006.7 million in Marketable Securities on the Condensed Consolidated Balance Sheet.

(2) Included in Marketable Securities on the Condensed Consolidated Balance Sheet.

(3) Includes $9.2 million in Cash Equivalents and $1,229.5 million in Marketable Securities on the Condensed Consolidated Balance Sheet.

(4) Included in Cash Equivalents on the Condensed Consolidated Balance Sheet.

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

Note 7 - 3dfx

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

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

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

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

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

Note 8 - Intangible Assets

The components of our amortizable intangible assets are as follows:

	April 28, 2013			January 27, 2013		
	Gross Carrying	Accumulated Amortization	Net Carrying Amount	Gross Carrying	Accumulated Amortization	Net Carrying Amount

	Amount			Amount		
	(In thousands)					
Acquisition-related intangible assets	$172,039	$(100,306)	$71,733	$172,039	$(96,389)	$75,650
Patents and licensed technology	448,834	(183,834)	265,000	407,002	(170,320)	236,682
Total intangible assets	$620,873	$(284,140)	$336,733	$579,041	$(266,709)	$312,332

The increase in gross carrying amount of intangible assets is primarily due to new purchases of licenses to technology and patents during the first quarter of fiscal year 2014.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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Amortization expense associated with intangible assets for the three months ended April 28, 2013 and April 29, 2012 was $17.4 million and $16.6 million, respectively. Amortization expense increased compared to the prior year primarily due to the addition of a licensed technology and a patent portfolio. Future amortization expense related to the net carrying amount of intangible assets at April 28, 2013 is estimated to be $56.6 million for the remainder of fiscal year 2014, $75.3 million in fiscal year 2015, $68.2 million in fiscal year 2016, $51.7 million in fiscal year 2017, $48.7 million in fiscal year 2018 and a total of $36.2 million in fiscal year 2019 and fiscal years subsequent to fiscal year 2019.

Note 9 - Balance Sheet Components

Certain balance sheet components are as follows:

	April 28, 2013	January 27, 2013
Inventories:	(In thousands)	
Raw materials	$136,533	$164,324
Work in-process	57,722	67,628
Finished goods	183,342	187,734
Total inventories	$377,597	$419,686

At April 28, 2013, we had outstanding inventory purchase obligations totaling approximately $538 million.

	April 28, 2013	January 27, 2013
Prepaid Expenses and Other:	(In thousands)	
Prepaid maintenance	$18,275	$18,013
Prepaid insurance	5,001	3,729
Prepaid taxes	12,853	9,785
Prepaid rent	3,169	2,909
Other	23,036	35,265
Total prepaid expenses and other	$62,334	$69,701

	April 28, 2013	January 27, 2013
Accrued Liabilities:	(In thousands)	
Deferred revenue	$269,569	$273,605
Accrued customer programs (1)	163,711	163,406
Warranty accrual (2)	14,833	14,874
Accrued payroll and related expenses	77,863	98,977
Accrued legal settlement (3)	30,600	30,600
Taxes payable, short-term	6,405	3,173
Other	34,337	35,160
Total accrued liabilities and other	$597,318	$619,795

(1) Please refer to Note 1 of these Notes to Condensed Consolidated Financial Statements for discussion regarding the nature of accrued customer programs and their accounting treatment related to our revenue recognition policies and estimates.
(2) Please refer to Note 10 of these Notes to Condensed Consolidated Financial Statements for discussion regarding the warranty accrual.
(3) Please refer to Note 11 of these Notes to Condensed Consolidated Financial Statements for discussion regarding the 3dfx litigation.

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

	April 28, 2013	January 27, 2013
Other Long-Term Liabilities:	(In thousands)	
Deferred income tax liability	$192,487	$192,950
Income taxes payable, long-term	114,531	115,267
Asset retirement obligation	10,271	10,165
Deferred revenue	170,068	236,152
Other long-term liabilities	23,324	34,787
Total other long-term liabilities	$510,681	$589,321

Note 10 - Guarantees

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

Accrual for Product Warranty Liabilities
We record a reduction to revenue for estimated product returns at the time revenue is recognized primarily based on historical return rates. Cost of revenue includes the estimated cost of product warranties. Under limited circumstances, we may offer an extended limited warranty to customers for certain products. Additionally, we accrue for known warranty and indemnification issues if a loss is probable and can be reasonably estimated. The estimated product warranty liabilities for the three months ended April 28, 2013 and April 29, 2012 were as follows:

	Three Months Ended	
	April 28, 2013	April 29, 2012
	(In thousands)	
Balance at beginning of period (1)	$14,874	$18,406
Additions	1,418	1,679
Deductions (2)	(1,459)	(3,015)
Balance at end of period	$14,833	$17,070

(1) Includes $9.6 million and $13.2 million for the three months ended April 28, 2013 and April 29, 2012, respectively, related to warranty accrual associated with incremental repair and replacement costs from a weak die/packaging material set.

(2) Includes $0.5 million and $1.2 million for the three months ended April 28, 2013 and April 29, 2012, respectively, in payments related to the warranty accrual associated with incremental repair and replacement costs from a weak die/packaging material set.

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

NVIDIA CORPORATION AND SUBSIDIARIES
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(Unaudited)

Note 11 - Commitments and Contingencies

3dfx

On December 15, 2000, NVIDIA and one of our indirect subsidiaries entered into an Asset Purchase Agreement, or APA, to purchase certain graphics chip assets from 3dfx. The transaction closed on April 18, 2001. That acquisition, and 3dfx's October 2002 bankruptcy filing, led to four lawsuits against NVIDIA: two brought by 3dfx's former landlords, one by 3dfx's bankruptcy trustee and the fourth by a committee of 3dfx's equity security holders in the bankruptcy estate. The two landlord cases have been settled with payments from the landlords to NVIDIA, and the equity security holders lawsuit was dismissed with prejudice and no appeal was filed. Accordingly, only the bankruptcy trustee suit remains outstanding as more fully explained below.

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

On October 13, 2005, the Bankruptcy Court heard the Trustee's motion for summary adjudication, and on December 23, 2005, denied that motion in all material respects and held that NVIDIA may not dispute that the value of the 3dfx transaction was less than $108.0 million. The Bankruptcy Court denied the Trustee's request to find that the value of the 3dfx assets conveyed to NVIDIA was at least $108.0 million.

In early November 2005, after several months of mediation, NVIDIA and the Official Committee of Unsecured Creditors, or the Creditors' Committee, agreed to a Plan of Liquidation of 3dfx, which included a conditional settlement of the Trustee's claims against us. This conditional settlement was subject to a confirmation process through a vote of creditors and the review and approval of the Bankruptcy Court. The conditional settlement called for a payment by NVIDIA of approximately $30.6 million to the 3dfx estate. Under the settlement, $5.6 million related to various administrative expenses and Trustee fees, and $25.0 million related to the satisfaction of debts and liabilities owed to the general unsecured creditors of 3dfx. Accordingly, during the three month period ended October 30, 2005, we recorded $5.6 million as a charge to settlement costs and $25.0 million as additional purchase price for 3dfx. The Trustee advised that he intended to object to the settlement. The conditional settlement never progressed substantially through the confirmation process.

On December 21, 2006, the Bankruptcy Court scheduled a trial for one portion of the Trustee's case against NVIDIA. On January 2, 2007, NVIDIA terminated the settlement agreement on grounds that the Bankruptcy Court had failed to proceed toward confirmation of the Creditors' Committee's plan. A non-jury trial began on March 21, 2007 on valuation issues in the Trustee's constructive fraudulent transfer claims against NVIDIA. Specifically, the Bankruptcy Court tried four questions: (1) what did 3dfx transfer to NVIDIA in the APA; (2) of what was transferred, what qualifies as “property” subject to the Bankruptcy Court's avoidance powers under the Uniform Fraudulent Transfer Act and relevant bankruptcy code provisions; (3) what is the fair market value of the “property” identified in answer to question (2); and (4) was the $70.0 million that NVIDIA paid “reasonably equivalent” to the fair market value of that property. The parties completed post-trial briefing on May 25, 2007.

On April 30, 2008, the Bankruptcy Court issued its Memorandum Decision After Trial, in which it provided a detailed summary of the trial proceedings and the parties' contentions and evidence and concluded that “the creditors of 3dfx were not injured by the Transaction.” This decision did not entirely dispose of the Trustee's action, however, as the Trustee's claims for successor liability and intentional fraudulent conveyance were still pending. On June 19, 2008, NVIDIA filed a motion for summary judgment to convert the Memorandum Decision After Trial to a final judgment. That motion was granted in its entirety and judgment was entered in NVIDIA's favor on September 11, 2008. The Trustee filed a Notice of Appeal from that judgment on September 22, 2008, and on September 25, 2008, NVIDIA exercised its election to have the appeal heard by the United States District Court.

The District Court's hearing on the Trustee's appeal was held on June 10, 2009. On December 20, 2010, the District Court issued an Order affirming the Bankruptcy Court's entry of summary judgment in NVIDIA's favor. On January 19, 2011, the Trustee filed a Notice of Appeal to the United States Court of Appeals for the Ninth Circuit. A hearing on the appeal is currently scheduled for October 17, 2013.

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

Product Defect Litigation and Securities Cases

Product Defect Litigation

In September, October and November 2008, several putative consumer class action lawsuits were filed against us, asserting various claims arising from a weak die/packaging material set in certain versions of our previous generation products used in notebook configurations. On February 26, 2009, the various lawsuits were consolidated in the United States District Court for the Northern District of California, San Jose Division, under the caption "The NVIDIA GPU Litigation." On March 2, 2009, several of the parties filed motions for appointment of lead counsel and briefs addressing certain related issues. On April 10, 2009, the District Court appointed Milberg LLP lead counsel. On May 6, 2009, the plaintiffs filed an Amended Consolidated Complaint, alleging claims for violations of California Business and Professions Code Section 17200, Breach of Implied Warranty under California Civil Code Section 1792, Breach of the Implied Warranty of Merchantability under the laws of 27 other states, Breach of Warranty under the Magnuson-Moss Warranty Act, Unjust Enrichment, violations of the New Jersey Consumer Fraud Act, Strict Liability and Negligence, and violation of California's Consumer Legal Remedies Act.

After extensive motion practice and litigation, plaintiffs on December 14, 2009 filed a Second Amended Consolidated Complaint seeking unspecified damages and asserting claims for violations of California Business and Professions Code Section 17200, Breach of Implied Warranty under California Civil Code Section 1792, Breach of Warranty under the Magnuson-Moss Warranty Act, violations of the New Jersey Consumer Fraud Act, Strict Liability and Negligence, and violation of California's Consumer Legal Remedies Act.

On July 16, 2010, the parties filed a stipulation with the District Court advising that, following mediation they had reached a settlement in principle in The NVIDIA GPU Litigation. The settlement in principle was subject to certain approvals, including final approval by the court. As a result of the settlement in principle, and the other estimated settlement, and offsetting insurance reimbursements, NVIDIA recorded a net charge of $12.7 million to sales, general and administrative expense during the second quarter of fiscal year 2011. In addition, a portion of the $181.2 million of additional charges we recorded against cost of revenue related to the weak die/packaging set during the second quarter of fiscal year 2011, relates to estimated additional repair and replacement costs related to the implementation of these settlements. On August 12, 2010, the parties executed a Stipulation and Agreement of Settlement and Release. On September 15, 2010, the Court issued an order granting preliminary approval of the settlement and providing for notice to the potential class members. The Final Approval Hearing was held on December 20, 2010, and on that same day the Court approved the settlement and entered Final Judgment over several objections. In January 2011, several objectors filed Notices of Appeal of the Final Judgment to the United States Court of Appeals for the Ninth Circuit. The appeal is currently pending.

On July 22, 2011, a putative class action titled Granfield v. NVIDIA Corp. was filed in federal court in Massachusetts asserting claims for breach of implied warranties arising out of the weak die/packaging material set, on behalf of a class of consumers alleged to not be covered by the settlement approved by the California court in The NVIDIA GPU Litigation. On November 3, 2011 the action was transferred to the Northern District of California, San Francisco Division, based upon stipulation of the parties. On December 30, 2011, Plaintiff filed a First Amended Complaint asserting claims for violation of California Consumers Legal Remedies Act and Unfair Competition Law. On March 19, 2012, Plaintiff filed a Second Amended Complaint asserting claims for California Consumers Legal Remedies Act and Unfair Competition Law violations, Breach of Implied Warranty, and violations of the Massachusetts consumer protection statutes. NVIDIA filed a motion to dismiss the Second Amended Complaint on April 12, 2012.

On July 12, 2012, the District Court dismissed six of the seven asserted causes of action with prejudice, allowing only one cause of action for violation of the Massachusetts consumer protection statute to continue, and instructed Plaintiff to file an amended complaint consistent with its Order. On August 15, 2012, Plaintiff indicated that he would not be filing an amended complaint. The Granfield case is now over.

Securities Cases

In September 2008, three putative securities class actions, or the Actions, were filed in the United States District Court for the Northern District of California arising out of our announcements on July 2, 2008, that we would take a charge against cost of revenue to cover anticipated costs and expenses arising from a weak die/packaging material set in certain versions of our previous generation MCP and GPU products and that we were revising financial guidance for our second quarter of fiscal year 2009. The Actions purport to be brought on behalf of purchasers of NVIDIA stock and assert claims for violations of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, as amended, or the Securities Exchange Act. On October 30, 2008, the Actions were consolidated under the caption In re NVIDIA Corporation Securities Litigation, Civil Action No. 08-CV-04260-JW (HRL). Lead Plaintiffs and Lead Plaintiffs' Counsel were appointed on December 23, 2008. On February 6, 2009, co-Lead Plaintiff filed a Writ of Mandamus with the Ninth Circuit Court of Appeals challenging the designation of co-Lead Plaintiffs' Counsel. On February 19, 2009, co-Lead Plaintiff filed with the District Court, a motion to stay the District Court proceedings pending resolution of the Writ of Mandamus by the Ninth Circuit. On February 24, 2009, Judge Ware granted the stay. On November 5, 2009, the Court of Appeals issued an opinion reversing the District Court's appointment of one of the lead plaintiffs' counsel, and remanding the matter for further proceedings. On December 8, 2009, the District Court appointed Milberg LLP and Kahn Swick & Foti, LLC as co-lead counsel.

On January 22, 2010, Plaintiffs filed a Consolidated Amended Class Action Complaint for Violations of the Federal Securities Laws, asserting claims for violations of Section 10(b), Rule 10b-5, and Section 20(a) of the Securities Exchange Act. The consolidated complaint sought unspecified compensatory damages. We filed a motion to dismiss the consolidated complaint in March 2010 and a hearing was held on June 24, 2010 before Judge Seeborg. On October 19, 2010, Judge Seeborg granted our motion to dismiss with leave to amend. On December 2, 2010, co-Lead Plaintiffs filed a Second Consolidated Amended Complaint. We moved to dismiss the Second Consolidated Amended Complaint on February 14, 2011. Following oral argument, on October 12, 2011, Judge Seeborg granted our motion to dismiss without leave to amend, and on November 8, 2011, Plaintiffs filed a Notice of Appeal to the Ninth Circuit. The appeal has been fully briefed, but the Ninth Circuit has not yet set a hearing date.

Accounting for Loss Contingencies

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

Note 12 - Stockholders’ Equity

Stock Repurchase Program

In fiscal year 2007, our Board of Directors authorized us, subject to certain specifications, to repurchase shares of our common stock up to an aggregate maximum amount of $2.7 billion through May 2013. In October 2012, the Board extended the program through December 2014. The repurchases will be made from time to time in the open market, in privately negotiated transactions, or in structured stock repurchase programs, and may be made in one or more larger repurchases, in compliance with Rule 10b-18 of the Securities Exchange Act, subject to market conditions, applicable legal requirements, and other factors. The program does not obligate NVIDIA to acquire any particular amount of common stock and the program may be suspended at any time at our discretion. As part of our share repurchase program, we have entered into, and we may continue to enter into, structured share repurchase transactions with financial institutions. These agreements generally require that we make an up-front payment in exchange for the right to receive a fixed number of shares of our common stock upon execution of the agreement, and a potential incremental number of shares of our common stock, within a pre-determined range, at the end of the term of the agreement.

Through April 28, 2013, we have repurchased an aggregate of 107.3 million shares under our stock repurchase program for a total cost of $1.66 billion. As of April 28, 2013, we are authorized, subject to certain specifications, to repurchase additional shares of our common stock up to $1.04 billion through December 2014.

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Convertible Preferred Stock

As of April 28, 2013 and January 27, 2013, there were no shares of preferred stock outstanding.

Common Stock

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

Note 13 - Segment Information

Our Chief Executive Officer, who is considered to be our chief operating decision maker, or CODM, reviews financial information presented on an operating segment basis for purposes of making operating decisions and assessing financial performance. Our operating segments are equivalent to our reportable segments. During the last several years, we have operated and reported three reporting segments to our CODM: the GPU business, the Professional Solutions business, and the Consumer Products business. However, during the fourth quarter of fiscal year 2013, we began reporting two segments to reflect the way we are now managing our businesses internally which is based on whether the underlying products leverage our GPU or our Tegra Processor technologies. Comparative periods presented reflect this change.

Our GPU business leverages our GPU technology across multiple end markets. It now comprises of four primary product lines, including GeForce for desktop and notebook PCs and Macs; Quadro for professional workstations; Tesla for high-performance servers and workstations; and NVIDIA GRID for server graphics solutions. It also includes other related products, licenses and revenue supporting the GPU business, such as memory products. Our Tegra Processor business comprises product lines primarily based on our Tegra system-on-a-chip and modem processor technologies. This includes Tegra for smartphones and tablets for both Android and Windows RT-based devices; automotive computers, including infotainment and navigation systems; and gaming devices such as SHIELD. It also includes other related products, licenses, and revenue supporting the Tegra Processor business such as Icera baseband processors and RF transceivers, embedded products, and licenses and other revenue associated with game consoles.
In addition to the two reporting segments discussed above, the “All Other” category represents unallocated revenue and expenses which primarily includes licensing revenue from our patent cross licensing agreement with Intel Corporation. Revenue related to this agreement is recognized ratably over the term of our agreement and is not actively managed. This category also includes corporate operating expenses that we do not allocate to our other reporting segments as such expenses are not directly related to the function or operations of our reporting segments. These expenses include certain corporate infrastructure and support costs that are deemed to be enterprise in nature. Additionally, we do not allocate stock-based compensation, amortization of acquisition-related intangible assets, other acquisition-related costs, net warranty charge related to a weak die/packaging material set, and non-recurring charges and benefits. The table below presents details of our reportable segments and the “All Other” category.
Our CODM does not review any information regarding total assets on a reporting segment basis. Reporting 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	Tegra Processor	All Other	Consolidated
	(In thousands)			

Three Months Ended April 28, 2013				
Revenue	$785,612	$103,127	$66,000	$954,739
Depreciation and amortization expense	$30,225	$19,236	$10,283	$59,744
Operating income (loss)	$224,646	$(124,588)	$(17,277)	$82,781
Three Months Ended April 29, 2012				
Revenue	$726,365	$132,512	$66,000	$924,877
Depreciation and amortization expense	$31,061	$12,718	$10,712	$54,491
Operating income (loss)	$153,477	$(62,536)	$(18,115)	$72,826

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	Three Months Ended	
	April 28, 2013	April 29, 2012
	(In thousands)	
Reconciling items included in "All Other" category :		
Revenue not allocated to reporting segments	$66,000	$66,000
Unallocated corporate operating expenses and other expenses	(41,019)	(39,033)
Stock-based compensation	(33,397)	(35,569)
Amortization of acquisition-related intangibles	(3,915)	(4,342)
Other acquisition-related costs	(4,946)	(5,171)
Other non-recurring expenses and benefits	—	—
Total	$(17,277)	$(18,115)

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	
	April 28, 2013	April 29, 2012
	(In thousands)	
Revenue:		
China	$175,044	$178,610
Taiwan	289,881	276,318
Other Asia Pacific	167,257	178,677
United States	185,978	145,942
Other Americas	65,007	75,822
Europe	71,572	69,508
Total revenue	$954,739	$924,877

Revenue from significant customers, those representing 10% or more of total revenue, was approximately 21% of our total revenue from the same two customers for the three months ended April 28, 2013 and April 29, 2012, respectively.

Accounts receivable from significant customers, those representing 10% or more of total accounts receivable, was approximately 38% of our accounts receivable balance from two customers at April 28, 2013 and approximately 40% of our accounts receivable balance from three customers at January 27, 2013.

Note 14 - Subsequent Events

On May 14, 2013, we entered into an accelerated share repurchase agreement, or ASR Agreement, with Goldman, Sachs & Co., or Goldman, to repurchase a total of $750 million of our common stock in fiscal year 2014. Under the ASR Agreement, we will pay $750 million and will receive a majority of the shares underlying the ASR Agreement during the second quarter of fiscal year 2014. Any remaining shares to be repurchased under the ASR Agreement, if any, will be based generally on the daily volume-weighted average price of our common stock during the term of the ASR Agreement, subject to certain adjustments pursuant to the terms and conditions of the ASR Agreement.
At settlement, under certain circumstances, Goldman may be required to deliver additional shares of common stock to us, or, under certain circumstances, we may be required to deliver shares of our common stock or may elect to make a cash payment to Goldman. The ASR Agreement contains provisions customary for agreements of this type, including provisions for adjustments to the transaction terms, the circumstances generally under which the ASR Agreement may be accelerated, extended or terminated early by Goldman and various acknowledgements, representations and warranties made by the parties to one another. Purchases under the ASR Agreement are expected to be completed before the end of October 2013, although the completion date may be accelerated at Goldman's option. The actual number of shares repurchased will be determined at that time.

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

Forward-Looking Statements

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

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

NVIDIA, the NVIDIA logo, GeForce, Grid, Icera, Kepler, Quadro, Shield, Tegra, Tesla, and Titan are trademarks and/or registered trademarks of NVIDIA Corporation in the United States and other countries. Other company and product names may be trademarks of the respective companies with which they are associated.

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with "Item 6. Selected Financial Data" of our Annual Report on Form 10-K for the fiscal year ended January 29, 2012 and "Item 1A. Risk Factors" of this Quarterly Report on Form 10-Q and our Condensed Consolidated Financial Statements and related Notes thereto, as well as other cautionary statements and risks described elsewhere in this Quarterly Report on Form 10-Q, before deciding to purchase, hold or sell shares of our common stock.

Overview

Our Company

NVIDIA is a visual computing company, connecting people through the powerful medium of computer graphics. In a world increasingly filled with visual displays, our graphics technologies let our customers interact with the world of digital ideas, information and entertainment with an efficiency that no other communication medium can provide. Visualization transcends cultural and language boundaries and enhances the quality of life whether the setting is work or pleasure and the task is mission critical or for entertainment.

We have long been known to millions around the world for creating the graphics chips used in PCs that bring video games to life. With our invention of the GPU, we introduced the world to the power of programmable shading, which defines modern computer graphics. Today, we reach well beyond PC graphics and games. Our energy-efficient processors are at the heart of products ranging from mobile devices to supercomputers. PC gamers choose our GPUs by name to enjoy immersive fantasy worlds. Our Tegra processors power smartphones, tablets and automobile infotainment systems. Professional designers use our GPUs to create visual effects in movies and design everything from audio headsets to commercial aircraft. And supercomputers take advantage of the massively parallel processing capabilities of our GPUs to accelerate a wide range of important applications, from simulations of viruses at the molecular level, to modern weather forecasting and global oil exploration.

NVIDIA's research and development in visual computing has yielded more than 5,000 patents granted or pending worldwide, and including ones covering inventions essential to modern computing.

Our businesses are based on two important technologies: the GPU and the Tegra processor. GPUs, each with billions of transistors, are the engine of visual computing and among the world's most complex processors. We have GPU product brands designed for specific users and applications: GeForce for gamers; Quadro for designers; Tesla for researchers; and GRID VGX for cloud-based server graphics modules. We recently announced the NVIDIA GRID visual computing appliance, a fully integrated system with GRID VGX graphics modules that run NVIDIA's proprietary system software. GRID is a first-of-its-kind device, designed to serve graphics-intensive applications from the cloud simultaneously to a large number of concurrent users.

The Tegra processor is a system-on-a-chip, or SOC, integrating an entire computer on a single chip. Tegra processors incorporate multi-core GPUs and CPUs together with audio, video and input/output capabilities. They can also be integrated with baseband processors for phone and data communication. Unlike power-inefficient processors built for PCs, our Tegra SOC conserves power while delivering state-of-the-art graphics and multimedia processing. Tegra runs devices like smartphones, tablets and PCs; it can also be embedded into smart devices, such as televisions, monitors, set-top boxes, gaming devices and cars. We recently announced SHIELD, the first Android device designed for gaming. SHIELD features our Tegra 4 processor, contains proprietary NVIDIA-developed software and system technologies and leverages our deep partnerships with game developers all over the world.

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

Recent Developments, Future Objectives and Challenges

GPU Business

During the first quarter of fiscal year 2014, we launched GRID™ VCA™ - the industry's first visual computing appliance that enables businesses to deploy cloud based, GPU accelerated applications through any Windows, Linux or Mac client on their network.

During the first quarter of fiscal year 2014, we shipped GeForce® GTX™ TITAN for gamers which is powered by the same GPU technology that powers the world's fastest supercomputer.

During the first quarter of fiscal year 2014, we extended our Kepler technology into the workstation market and shipped four new professional graphics products under our Quadro K Series.

Tegra Processor Business

During the first quarter of fiscal year 2014, we announced our first fully integrated 4G LTE mobile processor.

Stock Repurchase and Cash Dividends

In fiscal year 2007, our Board of Directors authorized us, subject to certain specifications, to repurchase shares of our common stock up to an aggregate maximum amount of $2.7 billion through May 2013. In October 2012, the Board extended the program through December 2014. Through April 28, 2013, we have repurchased an aggregate of 107.3 million shares under our stock repurchase program for a total cost of $1.66 billion. As of April 28, 2013, we are authorized, subject to certain specifications, to repurchase additional shares of our common stock up to $1.04 billion.

In fiscal year 2014, we plan to return in excess of $1 billion to our shareholders, in the form of share repurchases and quarterly dividend payments. During the first quarter of fiscal year 2014, we made returns to shareholder by repurchasing $100.0 million worth of shares and paying $46.3 million of dividends, at 7.5 cents per share. Additionally, we entered into an accelerated share repurchase agreement on May 14, 2013 to repurchase a total of $750 million of our common stock during fiscal year 2014. Please refer to Note 14 of the Notes to the Condensed Consolidated Financial Statements for further disclosure regarding this repurchase agreement.

Financial Information by Business Segment and Geographic Data

Our Chief Executive Officer, who is considered to be our chief operating decision maker, or CODM, reviews financial information presented on an operating segment basis for purposes of making operating decisions and assessing financial performance. Our operating segments are equivalent to our reportable segments. During the last several years, we have operated and reported three reporting segments to our CODM: the GPU business, the Professional Solutions business, and the Consumer Products business. However, during the fourth quarter of fiscal year 2013, we began reporting two segments to reflect the way we are now managing our businesses internally which is based on whether the underlying products leverage our GPU or our Tegra Processor technologies. Comparative periods presented reflect this change.

Our GPU business leverages our GPU technology across multiple end markets. It now comprises of four primary product lines, including GeForce for desktop and notebook PCs and Macs; Quadro for professional workstations; Tesla for high-performance servers and workstations; and NVIDIA GRID for server graphics solutions. It also includes other related products, licenses and revenue supporting the GPU business, such as memory products. Our Tegra Processor business comprises product lines primarily based on our Tegra SOC and modem processor technologies. This includes Tegra for smartphones and tablets for both Android and Windows RT-based devices; automotive computers, including infotainment and navigation systems; and gaming devices such as SHIELD. It also includes other related products, licenses, and revenue supporting the Tegra Processor business such as Icera baseband processors and RF transceivers, embedded products, and licenses and other revenue associated with game consoles.
In addition to the two reporting segments discussed above, the “All Other” category represents unallocated revenue and expenses which primarily includes licensing revenue from our patent cross licensing agreement with Intel Corporation. Revenue related to this agreement is recognized ratably over the term of our agreement and is not actively managed. This category also includes corporate operating expenses that we do not allocate to our other reporting segments as such expenses are not directly related to the function or operations of our reporting segments. These expenses include certain corporate infrastructure and support costs that are deemed to be enterprise in nature. Additionally, we do not allocate stock-based compensation, amortization of acquisition-related intangible assets, other acquisition-related costs, net warranty charge related to a weak die/packaging material set, and non-recurring charges and benefits. The table below presents details of our reportable segments and the “All Other” category.
Our CODM does not review any information regarding total assets on a reporting segment basis. Reporting 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. Please refer to Note 13 of the Notes to the Condensed Consolidated Financial Statements for further disclosure regarding segment information.

Results of Operations

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

	Three Months Ended			
	April 28, 2013		April 29, 2012	
Revenue	100.0	%	100.0	%
Cost of revenue	45.7		49.9	
Gross profit	54.3		50.1	
Operating expenses				
Research and development	34.3		30.7	
Sales, general and administrative	11.4		11.5	
Total operating expenses	45.7		42.2	

Operating income	8.7	7.9
Interest and other income, net	0.6	0.5
Income before income tax	9.3	8.4
Income tax expense	1.1	1.8
Net income	8.2 %	6.6 %

Three months ended April 28, 2013 and April 29, 2012

Revenue

Revenue was $954.7 million for our first quarter of fiscal year 2014, compared to $924.9 million for our first quarter of fiscal year 2013, which represents an increase of approximately 3.2%. A discussion of our revenue results for each of our operating segments is as follows:

GPU Business. GPU business revenue increased by approximately 8.2% to $785.6 million in the first quarter of fiscal year 2014, compared to $726.4 million for the first quarter of fiscal year 2013. GPU revenues increased due to a richer product mix driven by sales of our GeForce high-end desktop Kepler products, offset by a decrease in mainstream desktop sales. GeForce notebook revenues increased as a result of strong design wins based on Intel's Ivy Bridge platform. Tesla compute revenue grew as we ramped sales of our Kepler-based products and continued to gain traction in new market opportunities.

Tegra Processor Business. Tegra Processor business revenue decreased by approximately 22.2% to $103.1 million in the first quarter of fiscal year 2014, compared to $132.5 million for the first quarter of fiscal year 2013. This decrease was primarily due to lower sales of our Tegra 2 and Tegra 3 processors as customers began to wind down production of smartphones and tablets based on these processors. The decrease also reflects lower revenue from the sale of embedded products and lower license and royalty revenue associated with game consoles.

All Other. We recognized $66.0 million in revenue from the patent cross licensing arrangement we entered into with Intel during the first three months of fiscal years 2014 and 2013.

Concentration of Revenue

Revenue from sales to customers outside of the United States and Other Americas accounted for 74% and 76% of total revenue for the first quarter of fiscal years 2014 and 2013, respectively. Revenue by geographic region is allocated to individual countries based on the location to which the products are initially billed even if the revenue is attributable to end customers in a different location.

Revenue from significant customers, those representing 10% or more of total revenue, was approximately 21% of our total revenue from the same two customers for the three months ended April 28, 2013 and April 29, 2012, respectively.

Gross Profit and Gross Margin

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

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

Our overall gross margin was 54.3% and 50.1% for the first quarters of fiscal years 2014 and 2013, respectively.

We expect our gross margin for the second quarter of fiscal year 2014 to be relatively consistent with the first quarter of fiscal year 2014.

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

GPU Business. The gross margin of our GPU business increased in the first quarter of fiscal year 2014 from the first quarter of fiscal year 2013. GPU margins increased primarily due to an increase in unit volume of our high-end Kepler-based GeForce desktop products which contributed to a richer overall mix of product sales. Additionally, the volume increase of Kepler-based Quadro workstation and Tesla compute products also contributed to a richer mix to GPU sales.

Tegra Processor Business. The gross margin of our Tegra Processor business decreased in the first quarter of fiscal year 2014 when compared with the first quarter of fiscal year 2013, primarily due to decreases in license and royalty revenue associated with game consoles when compared to the same periods in the prior year.

Operating Expenses

	Three Months Ended						
	April 28, 2013		April 29, 2012		$ Change	% Change	
	(In millions)						
Research and development expenses	$327.2		$283.9		$43.3	15.3	%
Sales, general and administrative expenses	108.6		106.6		2.0	1.9	%
Total operating expenses	$435.8		$390.5		$45.3	11.6	%
Research and development as a percentage of net revenue	34.3	%	30.7	%			
Sales, general and administrative as a percentage of net revenue	11.4	%	11.5	%			

Research and Development

Research and development expenses were $327.2 million and $283.9 million during the first quarter of fiscal years 2014 and 2013, respectively, an increase of $43.3 million, or 15.3%. This increase was primarily due to an increase in compensation and benefits of $25.5 million, or 17%, as we continue to hire engineering talent to invest in our business. The increase in compensation, benefits, and other employee-related costs also reflects annual salary increases and a 401(k) match program that we initiated in January 2013. In addition, development expenses increased by $5.2 million, or 32%, primarily related to activities to bring up our next generation Tegra, SHIELD and GRID products. Also contributing to the increase were facility and equipment infrastructure spend to support planned hiring for our strategic growth businesses, including an $8.0 million increase in facilities expense and a $2.9 million increase in depreciation and amortization expense.

Sales, General and Administrative

Sales, general and administrative expenses were $108.6 million and $106.6 million during the first quarter of fiscal years 2014 and 2013, respectively, an increase of $2.0 million, or 1.9%. This was primarily attributable to increase in compensation and benefits expense as we continue to invest in our business.

We expect operating expenses to increase in the second quarter of fiscal year 2014.

Interest Income

Interest income consists of interest earned on cash, cash equivalents and marketable securities. Interest income was $5.1 million and $5.2 million for the first quarter of fiscal years 2014 and 2013, respectively, a decrease of $0.1 million.

Other Income (Expense), net

Other income (expense) primarily consists of realized gains and losses on the sale of marketable securities and foreign currency translation. Other income (expense) was $0.2 million in the first quarter of fiscal year 2014 compared to expense of $(0.9) million in the first quarter of fiscal year 2013, an increase in income of $1.1 million. This change was primarily driven by an increase in foreign currency translation gains in the first quarter of fiscal year 2014, when compared to first quarter of fiscal year 2013.

Income Taxes

We recognized income tax expense of $10.2 million and $16.7 million for the three months ended April 28, 2013 and April 29, 2012, respectively. Income tax expense as a percentage of income before taxes, or our effective tax rate, was 11.6% and 21.6% for the three months ended April 28, 2013 and April 29, 2012, respectively.

The decrease in our effective tax rate in fiscal year 2014 as compared to the same period in the prior fiscal year was primarily related to the benefit of the U.S. federal research tax credit which was re-enacted on January 2, 2013 under the American Taxpayer Relief Act, and favorable discrete events that occurred in the first three months of fiscal year 2014 primarily attributable to the expiration of statute of limitation in certain non-U.S. jurisdictions.

Our effective tax rate on income before tax for the first three months of fiscal year 2014 of 11.6% and fiscal year 2013 of 21.6% were lower than the United States federal statutory rate of 35% due primarily to income earned in jurisdictions where the tax rate is lower than the United States federal statutory tax, and for fiscal year 2014 due to the benefit of the U.S. federal research tax credit.

We expect our effective tax rate to be approximately 16% in the second quarter of fiscal year 2014, excluding any discrete tax events that may occur, which, if realized, may increase or decrease our effective tax rate in such quarter.

Please refer to Note 4 of the Notes to Condensed Consolidated Financial Statements for further information regarding the components of our income tax expense.

Liquidity and Capital Resources

	As of April 28, 2013	As of January 27, 2013
	(In millions)	
Cash and cash equivalents	$561.4	$732.8
Marketable securities	3,151.9	2,995.1
Cash, cash equivalents, and marketable securities	$3,713.3	$3,727.9

	Three Months Ended	
	April 28, 2013	April 29, 2012
	(In millions)	
Net cash provided by (used in) operating activities	$175.7	$(9.2)
Net cash used in investing activities	$(230.8)	$(335.1)
Net cash provided by (used in) financing activities	$(116.2)	$45.5

As of April 28, 2013, we had $3.71 billion in cash, cash equivalents and marketable securities, a decrease of $14.5 million from $3.73 billion as of January 27, 2013. Our portfolio of cash equivalents and marketable securities is managed on our behalf by several financial institutions that are required to follow our investment policy, which requires the purchase of top-tier investment grade securities and the diversification of asset type and includes certain limits on our portfolio duration.

Operating activities

Operating activities provided cash of $175.7 million and used cash of $9.2 million during the first quarters of fiscal years 2014 and 2013, respectively. The increase in cash provided by operating activities in the first quarter of fiscal year 2014 was primarily due to an increase in our net income and a decrease in our accounts receivable driven by more linear shipments throughout the quarter as well as strong collections. This was offset by changes in operating liabilities in the first quarter of fiscal year 2014 when compared to the first quarter of fiscal year 2013 primarily due to the timing of payments to vendors.

Investing activities

Investing activities consisted primarily of purchases and sales of marketable securities and purchases of property and equipment, which include leasehold improvements for our facilities, purchases of test equipment and computer hardware, as well as intangible assets. Investing activities used cash of $230.8 million and $335.1 million during the first quarters of fiscal years 2014 and 2013, respectively. The decrease in cash used for investing activities was primarily due to a reduction in net purchases, sales and maturities of our available for sale investments, offset by cash used to acquire licenses to technology and patents during the first quarter of fiscal year 2014.

Financing activities

Financing activities used cash of $116.2 million and provided cash of $45.5 million during the first quarters of fiscal years 2014 and 2013, respectively. The shift to net cash used by financing activities from cash provided by financing activities was primarily due to our repurchase in the first quarter of fiscal year 2014 of $100.0 million of common stock and cash dividend payments of $46.3 million as we increase the utilization of our cash for stockholder return initiatives. These uses of cash were offset by cash proceeds from common stock issued under our employee stock plans and a non-cash tax benefit related to employee stock-based compensation.

Liquidity

Our primary source of liquidity is cash generated by our operations. Our investment portfolio consists of cash and cash equivalents, commercial paper, mortgage-backed securities issued by government-sponsored enterprises, equity securities, money market funds and debt securities of corporations, municipalities and the United States government and its agencies. These investments are denominated in United States dollars. As of April 28, 2013, we did not have any investments in auction-rate preferred securities.

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

As of April 28, 2013 and January 27, 2013, we had $3.71 billion and $3.73 billion, respectively, in cash, cash equivalents and marketable securities. Our investment policy requires the purchase of top-tier investment grade securities and the diversification of asset types and includes certain limits on our portfolio duration, as specified in our investment policy guidelines. These guidelines also limit the amount of credit exposure to any one issue, issuer or type of instrument. As of April 28, 2013, we were in compliance with our investment policy. As of April 28, 2013, our investments in government agencies and government sponsored enterprises represented approximately 21% of our total investment portfolio, while the financial sector accounted for approximately 60% of our total investment portfolio. All of our investments are with A/A2 or better rated securities.

We performed an impairment review of our investment portfolio as of April 28, 2013. Based on our quarterly impairment review, we concluded that our investments were appropriately valued and did not record any impairment during the first quarter of fiscal year 2014.

Net realized gains for the first quarter of fiscal years 2014 and 2013 were both $0.1 million. As of April 28, 2013, we had a net unrealized gain of $11.4 million, which was comprised of gross unrealized gains of $12.3 million, offset by gross unrealized losses of $0.9 million. As of January 27, 2013, we had a net unrealized gain of $10.9 million, which was comprised of gross unrealized gains of $11.7 million, offset by $0.8 million of gross unrealized losses.

Our accounts receivable are highly concentrated and make us vulnerable to adverse changes in our customers’ businesses, and to downturns in the industry and the worldwide economy. Two customers accounted for approximately 38% of our accounts receivable balance at April 28, 2013. While we strive to limit our exposure to uncollectible accounts receivable using a combination of credit insurance and letters of credit, difficulties in collecting accounts receivable could materially and adversely affect our financial condition and results of operations. These difficulties are heightened during periods when economic conditions worsen. We continue to work directly with more foreign customers and it may be difficult to collect accounts receivable from them. We maintain an allowance for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. This allowance consists of an amount identified for specific customers and an amount based on overall estimated exposure. If the financial condition of our customers were to deteriorate, resulting in an impairment in their ability to make payments, additional allowances may be required, we may be required to defer revenue recognition on sales to affected customers, and we may be required to pay higher credit insurance premiums, any of which could adversely affect our operating results. In the future, we may have to record additional reserves or write-offs and/or defer revenue on certain sales transactions which could negatively impact our financial results.

Stock Repurchase Program

In fiscal year 2007, our Board of Directors authorized us, subject to certain specifications, to repurchase shares of our common stock up to an aggregate maximum amount of $2.7 billion through May 2013. In October 2012, the Board extended the program through December 2014. The repurchases will be made from time to time in the open market, in privately negotiated transactions, or in structured stock repurchase programs, and may be made in one or more larger repurchases, in compliance with Rule 10b-18 of the Securities Exchange Act of 1934, as amended, 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.

Through April 28, 2013, we have repurchased an aggregate of 107.3 million shares under our stock repurchase program for a total cost of $1.66 billion. As of April 28, 2013, we are authorized, subject to certain specifications, to repurchase additional shares of our common stock up to $1.04 billion through December 2014.

On May 14, 2013, we entered into an accelerated share repurchase agreement to repurchase a total of $750 million of our common stock in fiscal year 2014. Please refer to Note 14 of the Notes to the Condensed Consolidated Financial Statements for further disclosure regarding this repurchase agreement.

Cash Dividend Program

On November 8, 2012, we announced the initiation of a quarterly cash dividend program. The initial quarterly dividend of 7.5 cents per share is equivalent to 30 cents per share on an annual basis.

A subsequent cash dividend of 7.5 cents per share was declared on February 13, 2013 and paid on March 21, 2013 to all common stockholders of record on February 28, 2013. In the first quarter of fiscal year 2014, we paid $46.3 million in dividends to our common stockholders. We declared on May 9, 2013 that we will pay our next quarterly cash dividend of 7.5 cents per share on June 14, 2013 to all stockholders of record on May 23, 2013.

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

Operating Capital and Capital Expenditure Requirements

We believe that our existing cash balances and anticipated cash flows from operations will be sufficient to meet our operating, acquisition, stock repurchase, cash dividend and capital requirements for at least the next twelve months. However, there is no assurance that we will not need to raise additional equity or debt financing within this time frame. Additional financing may not be available on favorable terms or at all and may be dilutive to our then-current stockholders. We also may require additional capital for other purposes not presently contemplated. If we are unable to obtain sufficient capital, we could be required to curtail capital equipment purchases or research and development expenditures, which could harm our business. Factors that could affect our cash used or generated from operations and, as a result, our need to seek additional borrowings or capital include:

- decreased demand and market acceptance for our products and/or our customers’ products;

- inability to successfully develop and produce in volume production our next-generation products;
- competitive pressures resulting in lower than expected average selling prices; and
- new product announcements or product introductions by our competitors.

We expect to spend approximately $195.0 million to $225.0 million for capital expenditures during the remainder of fiscal year 2014, primarily for property development, leasehold improvements, software licenses, emulation equipment, computers and engineering workstations. In fiscal year 2014, we expect to break ground on a new building for our headquarters campus in Santa Clara to provide for our near-term growth needs. This 500,000 square foot building will provide 2,500 seats and be built on land we purchased five years ago. We estimate capital funding of $20.0 million for the campus development project in fiscal year 2014. In addition, we may continue to use cash in connection with the acquisition of new businesses or assets.

For additional factors see "Item 1A. Risk Factors - Risks Related to Our Business, Industry and Partners - Our revenue may fluctuate while our operating expenses are relatively fixed, which makes our results difficult to predict and could cause our results to fall short of expectations."

Contractual Obligations

As of April 28, 2013, we had outstanding inventory purchase obligations totaling approximately $538 million. There were no other material changes in our contractual obligations from those disclosed in our Annual Report on Form 10-K for the fiscal year ended January 27, 2013.

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

Off-Balance Sheet Arrangements

As of April 28, 2013, we had no material off-balance sheet arrangements as defined in Regulation S-K 303(a)(4)(ii).

Adoption of New and Recently Issued Accounting Pronouncements

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Investment and Interest Rate Risk

As of April 28, 2013 and January 27, 2013, we had $3.71 billion and $3.73 billion, respectively, in cash, cash equivalents and marketable securities. We invest in a variety of financial instruments, consisting principally of cash and cash equivalents, commercial paper, mortgage-backed securities issued by government-sponsored enterprises, equity securities, money market funds and debt securities of corporations, municipalities and the United States government and its agencies. As of April 28, 2013, we did not have any investments in auction-rate preferred securities. All of our investments are denominated in United States dollars.

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

As of April 28, 2013, we performed a sensitivity analysis on our floating and fixed rate investments. According to our analysis, parallel shifts in the yield curve of both plus or minus 0.5% would result in changes in fair market values for these investments of approximately $21.2 million.

The financial turmoil that affected the banking system and financial markets and increased the possibility that financial institutions might consolidate or go out of business resulted in a tightening in the credit markets, a low level of liquidity in many financial markets, and extreme volatility in fixed income, credit, currency and equity markets. There could be a number of follow-on effects from the credit crisis on our business, including insolvency of key suppliers resulting in product delays; inability of customers, including channel partners, to obtain credit to finance purchases of our products and/or customer, including channel partner, insolvencies; and failure of financial institutions, which may negatively impact our treasury operations. Other income and expense could also vary materially from expectations depending on gains or losses realized on the sale or exchange of financial instruments; impairment charges related to debt securities as well as equity and other investments; interest rates; and cash, cash equivalent and marketable securities balances. Volatility in the financial markets and economic uncertainty increases the risk that the actual amounts realized in the future on our financial instruments could differ significantly from the fair values currently assigned to them. As of April 28, 2013, our investments in government agencies and government sponsored enterprises represented approximately 21% of our total investment portfolio, while the financial sector accounted for approximately 60% of our total investment portfolio. All of our investments are with A/A2 or better rated securities. If the fair value of our investments in these sectors was to decline by 2% - 5%, fair market values for these investments would decline by approximately $51.9 - $129.7 million.

Exchange Rate Risk

We consider our direct exposure to foreign exchange rate fluctuations to be minimal. Gains or losses from foreign currency re-measurement are included in “Other income (expense), net” in our Condensed Consolidated Financial Statements and to date have not been significant. The impact of foreign currency transaction gain (loss) included in determining net income for the first quarter of fiscal years 2014 and 2013 was $1.8 million and $0.3 million, respectively. Currently, revenue and arrangements with third-party manufacturers provide for pricing and payment in United States dollars, and, therefore, are not subject to exchange rate fluctuations. Increases in the value of the United States’ dollar relative to other currencies would make our products more expensive, which could negatively impact our ability to compete. Conversely, decreases in the value of the United States’ dollar relative to other currencies could result in our suppliers raising their prices in order to continue doing business with us. Fluctuations in currency exchange rates could harm our business in the future.

We may enter into certain transactions such as forward contracts which are designed to reduce the future potential impact resulting from changes in foreign currency exchange rates. There were no forward exchange contracts outstanding at April 28, 2013.

ITEM 4. CONTROLS AND PROCEDURES

Controls and Procedures

Disclosure Controls and Procedures

Based on their evaluation as of April 28, 2013, our management, including our Chief Executive Officer and Interim Chief Financial Officer, has concluded that our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended) were effective to provide reasonable assurance.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal controls over financial reporting during our fiscal quarter ended April 28, 2013 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitations on Effectiveness of Controls

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

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Please see Part I, Item 1, Note 11 of the Notes to Condensed Consolidated Financial Statements for a discussion of our legal proceedings.

ITEM 1A. RISK FACTORS

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

Risks Related to Our Business, Industry and Partners

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

We use the most advanced manufacturing process technology appropriate for our products that is available from our third-party foundries. As a result, we continuously evaluate the benefits of migrating our products to smaller geometry process technologies in order to improve performance and reduce costs. Manufacturing process technologies are subject to rapid change and require significant expenditures for research and development, which could negatively impact our operating expenses and gross margin. Our third-party foundries may not be able to develop, obtain or successfully implement high quality, leading-edge process technologies needed to manufacture our products profitably or on a timely basis. Our competitors (including those that own their own manufacturing facilities) may also develop high quality, leading-edge process technologies earlier than our third-party foundries. If our third-party foundries experience manufacturing inefficiencies, we may fail to achieve acceptable yields or experience product delivery delays.

We have experienced difficulty in migrating to new manufacturing processes in the past and, consequently, have suffered reduced yields, delays in product deliveries and increased expense levels. For example, due to capacity constraints at TSMC of our 28 nanometer Kepler GPUs in the first quarter of fiscal year 2013, we were unable to fulfill customer demand for our high-end desktop GPU products, and as our sales mix shifted to our mainstream desktop GPU products, revenue and gross margins for the first quarter of fiscal year 2013 were negatively impacted compared to the prior quarter. We experienced continued 28 nanometer-supply constraints in the second quarter of fiscal year 2013.

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

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

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

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

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

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

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

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

We receive a significant amount of our revenue from a limited number of customers. Two customers accounted for 21% of our total revenue for the first quarter of fiscal year 2014 and fiscal year 2013, respectively. Approximately 38% of our accounts receivable balance was from two customers as of April 28, 2013, and approximately 40% of our accounts receivable balance was from three customers as of January 27, 2013. We maintain an allowance for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments and obtain credit insurance over the purchasing credit extended to certain customers. In the future, we may have to record additional reserves or write-offs and/or defer revenue on certain sales transactions which could negatively impact our financial results and as a result of the tightening of the credit markets, we may not be able to acquire credit insurance on the credit we extend to these customers or in amounts that we deem sufficient.

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

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

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

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

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

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

Our revenue may fluctuate while our operating expenses are relatively fixed, which makes our results difficult to predict and could cause our results to fall short of expectations.

Our operating expenses are relatively fixed and largely independent of revenue. Therefore, it is difficult for us to accurately forecast profits or losses in any particular period. Our operating expenses, which are comprised of research and development expenses and sales, general and administrative expenses, represented 45.6% and 42.2% of our total revenue for the first quarter of fiscal years 2014 and 2013, respectively. Since we often recognize a substantial portion of our revenue in the last month of each quarter, it is also difficult to accurately forecast revenue and we may not be able to adjust our operating expenses in a timely manner in response to any unanticipated revenue shortfalls in any quarter. Further, some of our operating expenses, like stock-based compensation expense, can only be adjusted over a longer period of time and cannot be reduced during a quarter. If we are unable to reduce operating expenses quickly in response to any revenue shortfalls, our financial results will be negatively impacted.

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

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

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

- the mix of our products sold;
- average selling prices;
- introduction of new products;
- product transitions;
- sales discounts;
- unexpected pricing actions by our competitors;
- the cost of product components; and
- the yield of wafers produced by the foundries that manufacture our products.

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

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

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

Our stock price continues to be volatile and investors may suffer losses.

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

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

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

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

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

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

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

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

We have acquired and invested in other businesses that offered products, services and technologies that we believe will help expand or enhance our existing products and business. Most recently, we completed our acquisition of Icera Inc., an innovator of baseband processors for 3G and 4G cellular phones and tablets. Such a transaction can involve significant integration challenges and there can be no assurance that pre-acquisition due diligence will have identified all possible issues and risks that might arise with respect to the acquisition. If we are unable to timely and successfully integrate the acquired operations, product lines and technology of Icera, we may not be able to realize the expected benefits of the acquisition, which could adversely affect our business plans and operating results.

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

- difficulty in combining the technology, products, operations or workforce of the acquired business with our business;
- difficulty in operating in a new or multiple new locations;
- disruption of our ongoing businesses or the ongoing business of the company we invest in or acquire;
- difficulty in realizing the potential financial or strategic benefits of the transaction;
- difficulty in maintaining uniform standards, controls, procedures and policies;
- difficulty integrating the target's accounting, management information, human resources and other administrative systems;
- diversion of capital and other resources;

- assumption of liabilities;

- incurring acquisition-related costs or amortization costs for acquired intangible assets that could impact our operating results;
- diversion of resources and unanticipated expenses resulting from litigation arising from potential or actual business acquisitions or investments;
- potential failure of the due diligence processes to identify significant issues with product quality, architecture and development, or legal and financial contingencies, among other things;
- difficulties in entering into new markets in which we have limited or no experience and where competitors in such markets have stronger positions;
- potential inability to obtain, or obtain in a timely manner, approvals from governmental authorities, which could delay or prevent such acquisitions or investments; and
- impairment of relationships with employees, vendors and customers, or the loss of any of our key employees, vendors or customers or our target's key employees, vendors or customers, as a result of our acquisition or investment.

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

System security risks, data protection breaches, cyber-attacks and systems integration issues could disrupt our internal operations, and any such disruption could reduce our expected revenue, increase our expenses, damage our reputation and adversely affect our stock price.

Experienced computer programmers and hackers may be able to penetrate our security controls and misappropriate or compromise our confidential information or that of third parties, create system disruptions or cause shutdowns. Computer programmers and hackers also may be able to develop and deploy viruses, worms and other malicious software programs that attack our products or otherwise exploit any security vulnerabilities of our products. The costs to us to eliminate or alleviate cyber or other security problems, bugs, viruses, worms, malicious software programs and security vulnerabilities could be significant, and our efforts to address these problems may not be successful and could result in interruptions, delays, cessation of service and loss of existing or potential customers that may impede our sales, manufacturing, distribution or other critical functions.

We manage and store various proprietary information and sensitive or confidential data relating to our business and third party business. Breaches of our security measures or the accidental loss, inadvertent disclosure or unapproved dissemination of proprietary information or sensitive or confidential data about us or our partners or customers, including the potential loss or disclosure of such information or data as a result of fraud, trickery or other forms of deception, could expose us, our partners and customers or the individuals affected to a risk of loss or misuse of this information, result in litigation and potential liability for us, damage our brand and reputation or otherwise harm our business. In addition, the cost and operational consequences of implementing further data protection measures could be significant. For example, in July 2012, unauthorized third parties gained access to certain user information on our online forums. We have strengthened security in an effort to minimize future attacks. However, hackers may continue to target our security controls in the future, and we cannot guarantee that our security measures will be able to prevent future breaches of our website and/or attacks on our products.

Portions of our IT infrastructure also may experience interruptions, delays or cessations of service or produce errors in connection with systemic failures, systems integration or migration work that takes place from time to time. We may not be successful in implementing new systems and transitioning data, which could cause business disruptions and be more expensive, time consuming, disruptive and resource-intensive. Such disruptions could adversely impact our ability to fulfill orders and interrupt other processes. Delayed sales, lower margins or lost customers resulting from these disruptions could adversely affect our financial results, stock price and reputation.

We may not be able to attract and retain qualified employees which could negatively impact our business.

Our future success and ability to compete are substantially dependent on our ability to identify, hire, train and retain highly qualified key personnel. The market for key employees in the technology industry can be competitive. None of our key employees is bound by an employment agreement, meaning our relationships with all of our key employees are at will. The loss of the services of any of our key employees without an adequate replacement or our inability to hire new employees as needed could delay our product development efforts, harm our ability to sell our products or otherwise negatively impact our business.

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

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

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

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

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

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

Our products are complex and may contain defects or experience failures due to any number of issues in design, fabrication, packaging, materials and/or use within a system. If any of our products or technologies contains a defect, compatibility issue or other error, we may have to invest additional research and development efforts to find and correct the issue. Such efforts could divert our engineers' attention from the development of new products and technologies and could increase our operating costs and reduce our gross margin. In addition, an error or defect in new products or releases or related software drivers after commencement of commercial shipments could result in failure to achieve market acceptance or loss of design wins. Also, we may be required to reimburse customers, including our customers' costs to repair or replace products in the field. A product recall or a significant number of product returns could be expensive, could damage our reputation, could result in the shifting of business to our competitors and could result in litigation against us. Costs associated with correcting defects, errors, bugs or other issues could be significant and could materially harm our financial results. During fiscal years 2011, 2010 and 2009, we recorded net warranty charges of $466.4 million against cost of revenue to cover anticipated customer warranty, repair, return, replacement and other costs arising from a weak die/packaging material set used in certain versions of our previous generation MCP and GPU products used in notebook configurations and shipped after July 2008. Please see the risk entitled “We are subject to litigation which, if determined adversely to us, could harm our business” for further information regarding this product defect.

We are subject to risks associated with international operations which may harm our business.

We conduct our business worldwide. Our semiconductor wafers are manufactured, assembled, tested and packaged by third-parties located outside of the United States and other Americas. We generated 74% and 76% of our revenue for the first quarter of fiscal years 2014 and 2013, respectively, from sales to customers outside the United States and other Americas. As of April 28, 2013, we had offices in 16 countries outside of the United States. The manufacture, assembly, test and packaging of our products outside of the United States, operation of offices outside of the United States, and sales to customers internationally subjects us to a number of risks, including:

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

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

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

Legal and regulatory requirements differ among jurisdictions worldwide. Violations of these laws and regulations could result in fines; criminal sanctions against us, our officers, or our employees; prohibitions on the conduct of our business; and damage to our reputation. Although we have policies, controls, and procedures designed to ensure compliance with foreign laws, many of these laws and regulations are ambiguous and are often interpreted and enforced in unpredictable ways.

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

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

Our cash equivalent and marketable securities portfolio as of April 28, 2013 consisted of cash and cash equivalents, commercial paper, mortgage-backed securities issued by Government-sponsored enterprises, money market funds and debt securities of corporations, municipalities and the United States government and its agencies. We follow an established investment policy and set of guidelines, designed to preserve principal, minimize risk, and monitor and help mitigate our exposure to interest rate and credit risk. The policy sets forth credit quality standards and limits our exposure to any one issuer, as well as our maximum exposure to various asset classes, and a variety of financial instruments, consisting principally of cash and cash equivalents, commercial paper, mortgage-backed securities issued by Government-sponsored enterprises, money market funds and debt securities of corporations, municipalities and the United States government and its agencies.

Should financial market conditions worsen in the future, investments in some financial instruments may pose risks arising from market liquidity and credit concerns. In addition, any deterioration of the capital markets could cause our other income and expense to vary from expectations. As of April 28, 2013, we had no material impairment charges associated with our short-term investment portfolio, and although we believe our current investment portfolio has very little risk of material impairment, we cannot predict future market conditions or market liquidity, or credit availability, and can provide no assurance that our investment portfolio will remain materially unimpaired.

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

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

We are engaged in litigation with parties related to our acquisition of 3dfx in 2001. In addition, in September, October and November 2008, several putative securities class action lawsuits were filed against for alleged defects in our previous generation MCP and GPU products. As of April 28, 2013, we recorded a total cumulative net warranty charge of $475.9 million, of which $466.4 million has been charged against cost of revenue, to cover anticipated customer warranty, repair, return, replacement and other costs arising from a weak die/packaging material set used in certain versions of our previous generation MCP and GPU products shipped after July 2008 and used in notebook configuration. The previous generation MCP and GPU products that are impacted were included in a number of notebook products that were shipped and sold in significant quantities. Certain notebook configurations of these MCP and GPU products are failing in the field at higher than normal rates. Testing suggests a weak material set of die/package combination, system thermal management designs, and customer use patterns are contributing factors for these failures. We have worked with our customers to develop and have made available for download a software driver to cause the system fan to begin operation at the powering up of the system and reduce the thermal stress on these chips. We have also recommended to our customers that they consider changing the thermal management of the products in their notebook system designs. Although we believe this issue has been nearly fully remediated, we remain committed to fully support our customers in their repair and replacement of these impacted products that fail, and their other efforts to mitigate the consequences of these failures. We continue to not see any abnormal failure rates in any systems using NVIDIA products other than certain notebook configurations. However, we are continuing to test and otherwise investigate other products. There can be no assurance that we will not discover defects in other products. Please refer to Note 11 of the Notes to the Consolidated Financial Statements for further details on these lawsuits.

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

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

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

Our pending patent applications and any future applications may not be approved. In addition, any issued patents may not provide us with competitive advantages or may be challenged by third parties.
Changes in United States tax legislation regarding our foreign earnings could adversely impact our business.

Currently, a majority of our revenue is generated from customers located outside the United States, and a significant portion of our assets, including employees, are located outside the United States. United States income taxes and foreign withholding taxes have not been provided on undistributed earnings for certain non-United States subsidiaries, because such earnings are intended to be indefinitely reinvested in the operations of those subsidiaries. Throughout the period of President Obama's administration and as recently as on April 10, 2013 with the release of the administration's fiscal year 2014 budget, the White House has proposed various international tax measures, some of which, if enacted into law, would substantially reduce our ability to defer United States taxes on such indefinitely reinvested non-United States earnings, eliminate certain tax deductions until foreign earnings are repatriated to the United States and/or otherwise cause the total tax cost of U.S. multinational corporations to increase. If these or similar proposals are constituted into legislation in the current or future year(s), they could have a negative impact on our financial position and results of operations.
Our operating results may be adversely affected if we are subject to unexpected tax liabilities.

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

- the jurisdictions in which profits are determined to be earned and taxed;
- adjustments to estimated taxes upon finalization of various tax returns;
- changes in available tax credits;
- changes in stock-based compensation expense;

- changes in tax laws, the interpretation of tax laws either in the United States or abroad or the issuance of new interpretative accounting guidance related to transactions and calculations where the tax treatment was previously uncertain; and
- the resolution of issues arising from tax audits with various tax authorities.

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

Litigation to defend against alleged infringement of intellectual property rights or to enforce our intellectual property rights and the outcome of such litigation could result in substantial costs to us.

We expect that as the number of issued hardware and software patents increases and as competition intensifies, the volume of intellectual property infringement claims and lawsuits may increase. We may in the future become involved in lawsuits or other legal proceedings alleging patent infringement or other intellectual property rights violations by us or that we have agreed to indemnify our customers for certain claims of infringement.

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

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

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

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

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

We are subject to the risks of owning real property.

During fiscal year 2009, we purchased real property in Santa Clara, California that includes approximately 25 acres of land and ten commercial buildings and expect to break ground on a new building for our corporate headquarters campus in Santa Clara in fiscal year 2014. We also own real property in China and India. We have limited experience in the ownership and management of real property and are subject to the risks of owning real property, including:

- the possibility of environmental contamination and the costs associated with mitigating any environmental problems;
- adverse changes in the value of these properties, due to interest rate changes, changes in the market in which the property is located, or other factors;
- the risk of loss if we decide to sell and are not able to recover all capitalized costs;
- increased cash commitments for the planned construction of our Santa Clara campus;
- the possible need for structural improvements in order to comply with zoning, seismic and other legal or regulatory requirements;

- increased operating expenses for the buildings or the property or both;

- possible disputes with third parties, such as neighboring owners or others, related to the buildings or the property or both; and
- the risk of financial loss in excess of amounts covered by insurance, or uninsured risks, such as the loss caused by damage to the buildings as a result of earthquakes, floods and or other natural disasters.

Expensing employee equity compensation adversely affects our operating results and could also adversely affect our competitive position.
Since inception, we have used equity through our equity incentive plans and our employee stock purchase program as a fundamental component of our compensation packages. We believe that these programs directly motivate our employees and, through the use of vesting, encourage our employees to remain with us.
We record compensation expense for stock options, restricted stock units and our employee stock purchase plan using the fair value of those awards in accordance with generally accepted accounting principles in United States of America, or U.S. GAAP. Stock-based compensation expense was $33.4 million and $35.6 million for the first quarter of fiscal years 2014 and 2013, respectively, related to on-going vesting of equity awards, which negatively impacted our operating results.
To the extent that expensing employee equity compensation makes it more expensive to grant stock options and restricted stock units or to continue to have an employee stock purchase program, we may decide to incur increased cash compensation costs. In addition, actions that we may take to reduce stock-based compensation expense that may be more severe than any actions our competitors may implement and may make it difficult to attract retain and motivate employees, which could adversely affect our competitive position as well as our business and operating results.
We may be required to record a charge to earnings if our goodwill or amortizable intangible assets become impaired, which could negatively impact our operating results.
Under U.S. GAAP, we review our amortizable intangible assets and goodwill for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. Goodwill is tested for impairment at least annually. The carrying value of our goodwill or amortizable assets from acquisitions may not be recoverable due to factors such as a decline in stock price and market capitalization, reduced estimates of future cash flows and slower growth rates in our industry or in any of our business units. Estimates of future cash flows are based on an updated long-term financial outlook of our operations. However, actual performance in the near-term or long-term could be materially different from these forecasts, which could impact future estimates. For example, if one of our business units does not meet its near-term and longer-term forecasts, the goodwill assigned to the business unit could be impaired. We may be required to record a charge to earnings in our financial statements during a period in which an impairment of our goodwill or amortizable intangible assets is determined to exist, which may negatively impact our results of operations.
Our failure to comply with any applicable environmental regulations could result in a range of consequences, including fines, suspension of production, excess inventory, sales limitations, and criminal and civil liabilities.
We are subject to various state, federal and international laws and regulations governing the environment, including restricting the presence of certain substances in electronic products and making producers of those products financially responsible for the collection, treatment, recycling and disposal of those products. Although our management systems are designed to maintain compliance, we cannot assure you that we have been or will be at all times in complete compliance with such laws and regulations. If we violate or fail to comply with any of them, a range of consequences could result, including fines, import/export restrictions, sales limitations, criminal and civil liabilities or other sanctions. We could also be held liable for any and all consequences arising out of exposure to hazardous materials used, stored, released, disposed of by us or located at, under or emanating from our facilities or other environmental or natural resource damage.
Environmental laws are complex, change frequently and have tended to become more stringent over time. For example, the European Union and China are two among a growing number of jurisdictions that have enacted in recent years restrictions on the use of lead, among other chemicals, in electronic products. These regulations affect semiconductor packaging. There is a risk that the cost, quality and manufacturing yields of lead-free products may be

less favorable compared to lead-based products or that the transition to lead-free products may produce sudden changes in demand, which may result in excess inventory.

There is also a movement to improve the transparency and accountability concerning the supply of minerals coming from the conflict zones in and around the Democratic Republic of Congo. Recent U.S. legislation includes disclosure requirements regarding the use of “conflict” minerals mined from the Democratic Republic of Congo and adjoining countries. The implementation of these requirements could affect the sourcing and availability of minerals used in the manufacture of semiconductor devices. As a result, there may only be a limited pool of suppliers who provide conflict-free metals, and we cannot assure you that we will be able to obtain products in sufficient quantities or at competitive prices. Furthermore, we may incur additional costs associated with complying with these disclosure requirements, including costs related to determining the source of any “conflict” minerals in our products. Also, since our supply chain is complex, we may face reputational challenges with our customers and other stockholders if we are unable to sufficiently verify the origins for all metals used in our products. Some customers may require that all of our products are certified to be conflict-free; if we cannot satisfy these customers, they may choose a competitor's products.

Future environmental legal requirements may become more stringent or costly and our compliance costs and potential liabilities arising from past and future releases of, or exposure to, hazardous substances may harm our business and our reputation.

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

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

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

We prepare our consolidated financial statements in conformity with U.S. GAAP. These principles are constantly subject to review and interpretation by the SEC and various bodies formed to interpret and create appropriate accounting principles. A change in these principles can have a significant effect on our reported results and may even retroactively affect previously reported transactions. Additionally, changes in existing accounting rules or practices, including the possible conversion to unified international accounting standards, could have a significant adverse effect on our results of operations or the manner in which we conduct our business.

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

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

- the ability of our Board of Directors to create and issue preferred stock without prior stockholder approval;
- the prohibition of stockholder action by written consent;
- a classified Board of Directors, which will become fully declassified from and after our 2014 Annual Meeting of Stockholders; and
- advance notice requirements for director nominations and stockholder proposals.

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

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

Issuer Purchases of Equity Securities

In fiscal year 2007, our Board of Directors authorized us, subject to certain specifications, to repurchase shares of our common stock up to an aggregate maximum amount of $2.7 billion through May 2013. In October 2012, the Board extended the program through December 2014. Through April 28, 2013, we had repurchased an aggregate of 107.3 million shares under our stock repurchase program for a total cost of $1.66 billion. As of April 28, 2013, we were authorized, subject to certain specifications, to repurchase additional shares of our common stock up to $1.04 billion through December 2014. On May 14, 2013, we entered into an accelerated share repurchase agreement to repurchase a total of $750 million of our common stock in fiscal year 2014. As a result, as of May 22, 2013, we are authorized to repurchase up to $290 million of additional shares of our common stock through December 2014, subject to certain specifications. Please refer to Note 14 of the Notes to the Condensed Consolidated Financial Statements for further disclosure regarding this repurchase agreement.

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

The following table presents details of our share repurchase transactions during the three months ended April 28, 2013 (in millions, except per share amounts):

Period	Total Number of Shares Purchased	Average Price Paid per Share (1)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
January 28, 2013 - February 24, 2013	—	—	—	$1,135.7
February 25, 2013 - March 24, 2013	4.2	$23.89	4.2	$1,035.7
March 25, 2013 - April 28, 2013	3.8	—	3.8	$1,035.7
Total	8.0		8.0	

(1) During March 2013, we entered into an accelerated share repurchase agreement, or an ASR, with an investment bank, under which we prepaid $100.0 million to purchase shares of our common stock. The aggregate number of shares ultimately purchased was determined based on the volume weighted-average share price, minus a discount, of our common stock over a specified period of time. By March 5, 2013, the investment bank delivered 4.2 million minimum shares. The contract was settled on April 25, 2013, and we received an additional 3.8 million shares at that time. The total number of shares repurchased under this ASR was 8.0 million shares at a weighted-average price of $12.46 per share.

ITEM 6. EXHIBITS

EXHIBIT INDEX

Exhibit No.	Exhibit Description	Schedule /Form	File Number	Exhibit	Filing Date
10.1+	Fiscal Year 2014 Variable Compensation Plan of NVIDIA Corporation	8-K	000-23985	10.1	April 2, 2013
10.2+	Amended and Restated 2007 Equity Incentive Plan	DEF 14A	000-23985	Appendix A	April 2, 2013
10.3*^	Master Confirmation and Supplemental Confirmation between NVIDIA Corporation and Goldman, Sachs & Co., dated May 14, 2013				
31.1*	Certification of Chief Executive Officer as required by Rule 13a-14(a) of the Securities Exchange Act of 1934				
31.2*	Certification of Chief Financial Officer as required by Rule 13a-14(a) of the Securities Exchange Act of 1934				
32.1#*	Certification of Chief Executive Officer as required by Rule 13a-14(b) of the Securities Exchange Act of 1934				
32.2#*	Certification of Chief Financial Officer as required by Rule 13a-14(b) of the Securities Exchange Act of 1934				
101.INS*	XBRL Instance Document				
101.SCH*	XBRL Taxonomy Extension Schema Document				
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document				
101.LAB*	XBRL Taxonomy Extension Labels Linkbase Document				
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document				
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document				

* Filed herewith.
+ Management contract or compensatory plan or arrangement.
^ Confidential treatment has been requested for portions of this exhibit. These portions will be omitted from the exhibit and have been filed separately with the U.S. Securities and Exchange Commission.
# In accordance with Item 601(b)(32)(ii) of Regulation S-K and SEC Release Nos. 33-8238 and 34-47986, Final Rule: Management's Reports on Internal Control Over Financial Reporting and Certification of Disclosure in Exchange Act Periodic Reports, the certifications furnished in Exhibits 32.1 and 32.2 hereto are deemed to accompany this Quarterly Report on Form 10-Q and will not be deemed “filed” for purpose of Section 18 of the Exchange Act. Such certifications will not be deemed to be incorporated by reference into any filing under the Securities Act or the Exchange Act, except to the extent that the registrant specifically incorporates it by reference.
Copies of above exhibits not contained herein are available to any stockholder upon written request to:
Investor Relations: NVIDIA Corporation, 2701 San Tomas Expressway, Santa Clara, CA 95050.

SIGNATURE

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

Date: May 22, 2013

	NVIDIA Corporation
By:	/s/ Karen Burns
	Karen Burns Interim Chief Financial Officer (Duly Authorized Officer and Principal Financial Officer)

EXHIBIT INDEX

Exhibit No.	Exhibit Description	Schedule /Form	File Number	Exhibit	Filing Date
10.1+	Fiscal Year 2014 Variable Compensation Plan of NVIDIA Corporation	8-K	000-23985	10.1	April 2, 2013
10.2+	Amended and Restated 2007 Equity Incentive Plan	DEF 14A	000-23985	Appendix A	April 2, 2013
10.3*^	Master Confirmation and Supplemental Confirmation between NVIDIA Corporation and Goldman, Sachs & Co., dated May 14, 2013				
31.1*	Certification of Chief Executive Officer as required by Rule 13a-14(a) of the Securities Exchange Act of 1934				
31.2*	Certification of Chief Financial Officer as required by Rule 13a-14(a) of the Securities Exchange Act of 1934				
32.1#*	Certification of Chief Executive Officer as required by Rule 13a-14(b) of the Securities Exchange Act of 1934				
32.2#*	Certification of Chief Financial Officer as required by Rule 13a-14(b) of the Securities Exchange Act of 1934				
101.INS*	XBRL Instance Document				
101.SCH*	XBRL Taxonomy Extension Schema Document				
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document				
101.LAB*	XBRL Taxonomy Extension Labels Linkbase Document				
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document				
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document				

* Filed herewith.

\+ Management contract or compensatory plan or arrangement.

^ Confidential treatment has been requested for portions of this exhibit. These portions will be omitted from the exhibit and have been filed separately with the U.S. Securities and Exchange Commission.

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

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

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