NVIDIA CORP
Form 10-Q
November 22, 2011

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 October 30, 2011
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.

Large accelerated filer x	Accelerated filer o
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 November 17, 2011, was 610,653,436

NVIDIA CORPORATION
FORM 10-Q
FOR THE QUARTER ENDED October 30, 2011

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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		Nine Months Ended	
	October 30, 2011	October 31, 2010	October 30, 2011	October 31, 2010
Revenue	$1,066,180	$843,912	$3,044,736	$2,656,933
Cost of revenue	509,463	451,850	1,478,232	1,674,202
Gross profit	556,717	392,062	1,566,504	982,731
Operating expenses				
Research and development	256,498	204,527	735,743	633,267
Sales, general and administrative	103,129	83,752	304,779	273,495
Total operating expenses	359,627	288,279	1,040,522	906,762
Income from operations	197,090	103,783	525,982	75,969
Interest income	4,356	4,220	14,936	14,596
Other income (expense), net	3,341	(4,418)	(2,099)	(5,302)
Income before income tax expense	204,787	103,585	538,819	85,263
Income tax expense	26,514	18,723	73,754	3,768
Net income	$178,273	$84,862	$465,065	$81,495
Basic net income per share	$0.29	$0.15	$0.77	$0.14
Shares used in basic per share computation	607,063	577,323	600,563	572,420
Diluted net income per share	$0.29	$0.15	$0.76	$0.14
Shares used in diluted per share computation	613,560	582,648	614,688	584,500

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	October 30, 2011	January 30, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	$566,816	$665,361
Marketable securities	2,181,538	1,825,202
Accounts receivable, net	371,261	348,770
Inventories	319,602	345,525
Prepaid expenses and other	34,573	32,636
Deferred income taxes	26,281	9,456
Total current assets	3,500,071	3,226,950
Property and equipment, net	551,757	568,857
Goodwill	648,053	369,844
Intangible assets, net	342,839	288,745
Deposits and other assets	46,323	40,850
Total assets	$5,089,043	$4,495,246
LIABILITIES AND STOCKHOLDERS’ EQUITY		
Current liabilities:		
Accounts payable	$307,943	$286,138
Accrued liabilities and other	578,741	656,544
Total current liabilities	886,684	942,682
Other long-term liabilities	206,960	347,713
Capital lease obligations, long-term	21,949	23,389
Commitments and contingencies - see Note 14	—	—
Stockholders’ equity:		
Preferred stock	—	—
Common stock	698	677
Additional paid-in capital	2,846,266	2,500,577
Treasury stock, at cost	(1,496,904)	(1,479,392)
Accumulated other comprehensive income	8,997	10,272
Retained earnings	2,614,393	2,149,328
Total stockholders' equity	3,973,450	3,181,462
Total liabilities and stockholders' equity	$5,089,043	$4,495,246

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	Nine Months Ended	
	October 30, 2011	October 31, 2010
Cash flows from operating activities:		
Net income	$465,065	$81,495
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	152,310	140,596
Stock-based compensation expense	100,918	74,985
Other	13,689	5,382
Deferred income taxes	14,242	(172)
Excess tax benefits from stock-based compensation	(52,703)	—
Changes in operating assets and liabilities:		
Accounts receivable	(8,834)	(24,567)
Inventories	39,748	(46,746)
Prepaid expenses and other current assets	35	3,798
Deposits and other assets	(2,992)	4,864
Accounts payable	9,218	(21,868)
Accrued liabilities and other long-term liabilities	(232,058)	23,357
Net cash provided by operating activities, net of effect of acquisition	498,638	241,124
Cash flows from investing activities:		
Purchases of marketable securities	(1,324,350)	(1,193,323)
Proceeds from sales and maturities of marketable securities	953,808	931,099
Purchases of property and equipment and intangible assets	(93,553)	(76,547)
Acquisition of businesses, net of cash acquired	(348,884)	—
Other	(1,890)	(1,656)
Net cash used in investing activities	(814,869)	(340,427)
Cash flows from financing activities:		
Proceeds from issuance of common stock under employee stock plans	176,490	104,131
Payments under capital lease obligations	(1,188)	(875)
Excess tax benefits from stock-based compensation	52,703	—
Payment of notes payable assumed from acquisition	(10,319)	—
Net cash provided by financing activities	217,686	103,256
Change in cash and cash equivalents	(98,545)	3,953
Cash and cash equivalents at beginning of period	665,361	447,221
Cash and cash equivalents at end of period	$566,816	$451,174
Supplemental disclosures of cash flow information:		
Cash paid for income taxes, net	$3,857	$2,522
Cash paid for interest on capital lease obligations	$2,254	$2,359
Other non-cash activities:		
Assets acquired by assuming related liabilities	$12,064	$67,785
Change in unrealized gains from marketable securities	$(1,274)	$497

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 30, 2011.

Fiscal Year

We operate on a 52 or 53-week year, ending on the last Sunday in January. Fiscal year 2012 and fiscal year 2011 are both 52-week years. The third quarters of fiscal years 2012 and 2011 are both 13-week quarters.

Reclassifications

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

Principles of Consolidation

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

Use of Estimates

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

Our policy on sales to certain distributors, with rights of return, is to defer recognition of revenue and related cost of revenue until the distributors resell the product, 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, or OEMs, distributors and add-in card partners that are earmarked for market segment development and expansion and typically are designed to support our partners' activities while also promoting NVIDIA products. Depending on market conditions, we may take actions to increase amounts offered under customer programs, possibly resulting in an incremental reduction of revenue at the time such programs are offered.

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

License and Development Revenue

For license arrangements that require significant customization of our intellectual property components, we generally recognize this license revenue 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.

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. 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 our 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.

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

Adoption of New and Recently Issued Accounting Pronouncements

In June 2011, the Financial Accounting Standards Board, or FASB, issued guidance regarding the presentation of comprehensive income. The new standard requires the presentation of comprehensive income, the components of net income and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The new standard also requires presentation of adjustments for items that are reclassified from other comprehensive income to net income in the statement where the components of net income and the components of other comprehensive income are presented. The updated guidance is effective on a retrospective basis for financial statements issued for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2011. The adoption of this guidance will not have a material impact on our financial statements.

In May 2011, the FASB issued additional guidance on fair value measurements that clarifies the application of existing guidance and disclosure requirements, changes certain fair value measurement principles and requires additional disclosures about fair value measurements. The updated guidance is effective on a prospective basis for financial statements issued for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2011. The adoption of this guidance will not have a material impact on our financial statements.
In September 2011, the FASB issued amended guidance to simplify how entities test goodwill for impairment. The amended guidance permits an assessment of qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit in which goodwill resides is less than its carrying value. For reporting units in which this assessment concludes it is more likely than not that the fair value is more than its carrying value, the amended guidance eliminate the requirement to perform further goodwill impairment testing as outlined in the previously issued standards. The updated guidance is elective for annual and interim impairment tests performed beginning with our fiscal year 2013 and early adoption is permitted. We do not expect the new guidance to significantly impact our consolidated condensed financial statements.

Note 2 - Stock-Based Compensation

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

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

	Three Months Ended		Nine Months Ended	
	October 30, 2011	October 31, 2010	October 30, 2011	October 31, 2010
Cost of revenue	$3,049	$2,490	$8,274	$6,582
Research and development	$19,308	$14,104	$59,594	$43,251
Sales, general and administrative	$10,872	$8,585	$33,050	$25,155

During the three and nine months ended October 30, 2011, we granted approximately 3.0 million and 6.3 million stock options respectively, with an estimated total grant-date fair value of $21.8 million and $51.4 million, respectively and a per option weighted average grant-date fair value of $7.35 and $8.20, respectively. During the three and nine months ended October 30, 2011, we granted approximately 3.1 million and 6.8 million RSUs, respectively, with an estimated total grant-date fair value of $43.9 million and $111.8 million, respectively, and a per RSU weighted average grant-date fair value of $14.34 and $16.43, respectively.

During the three and nine months ended October 31, 2010, we granted approximately 3.0 million and 5.7 million stock options, respectively, with an estimated total grant-date fair value of $13.7 million and $33.5 million, respectively, and a per option weighted average grant-date fair value of $4.60 and $5.90, respectively. During the three and nine months ended October 31, 2010, we granted approximately 3.9 million and 6.8 million RSUs, respectively, with an estimated total grant-date fair value of $40.8 million and $91.9 million, respectively, and a per RSU weighted average grant-date fair value of $10.53 and $13.50, respectively.

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

Of the estimated total grant-date fair value, we estimated that the stock-based compensation expense related to the equity awards that are not expected to vest was $11.8 million and $29.2 million, for the three and nine months ended October 30, 2011, respectively. As of October 30, 2011 and October 31, 2010, the aggregate amount of unearned stock-based compensation expense related to our equity awards was $206.1 million and $164.7 million, respectively, adjusted for estimated forfeitures. As of October 30, 2011, and October 31, 2010, we expect to recognize the unearned stock-based compensation expense related to stock options over an estimated weighted average amortization period of 2.7 years and 1.8 years, respectively. As of October 30, 2011 and October 31, 2010, we expect to recognize the unearned stock-based compensation expense related to RSUs over an estimated weighted average amortization period of 2.7 years and 2.6 years, respectively.

Valuation Assumptions

We utilize a binomial model for calculating the estimated fair value of new stock-based compensation awards granted under our equity incentive plans. We have determined that the use of implied volatility is expected to be reflective of market conditions and, therefore, can be expected to be a reasonable indicator of our expected volatility. We also segregate options into groups of employees with relatively homogeneous exercise behavior in order to calculate the best estimate of fair value using the binomial valuation model. As such, the expected term assumption used in calculating the estimated fair value of our stock-based compensation awards using the binomial model is based on detailed historical data about employees' exercise behavior, vesting schedules, and death and disability probabilities. Our management believes the resulting binomial calculation provides a reasonable estimate of the fair value of our employee stock options. For our employee stock purchase plan, we continue to use the Black-Scholes model.

We estimate forfeitures at the time of grant and revise the estimates of forfeiture, if necessary, in subsequent periods if actual forfeitures differ from those estimates. Forfeitures are estimated based on historical experience.

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		Nine Months Ended	
	October 30, 2011	October 31, 2010	October 30, 2011	October 31, 2010
Stock Options	(Using a binomial model)			
Expected life (in years)	4.1-4.9	4.0-5.5	3.6-5.4	3.1-6.7
Risk free interest rate	1.9-2.4%	1.9-2.7%	1.9-3.8%	1.9-3.0%
Volatility	58-65%	46-47%	46-65%	43-53%
Dividend yield	—	—	—	—

	Three Months Ended		Nine Months Ended	
	October 30, 2011	October 31, 2010	October 30, 2011	October 31, 2010
Employee Stock Purchase Plan	(Using a Black-Scholes model)			
Expected life (in years)	0.5-2.0	0.5-2.0	0.5-2.0	0.5-2.0
Risk free interest rate	0.1-0.2%	0.2-0.5%	0.1-0.7%	0.2-0.8%
Volatility	61 %	47 %	57-61%	45-47%
Dividend yield	—	—	—	—

Equity Award Activity

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

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

Stock Options	Options Outstanding (In thousands)	Weighted Average Exercise Price (Per share)
Balances, January 30, 2011	44,001	$12.88
Granted	6,271	$16.22
Exercised	(13,714)	$10.69
Cancelled	(1,514)	$14.61
Balances, October 30, 2011	35,044	$14.26

Restricted Stock Units	RSUs Outstanding (In thousands)	Weighted Average Grant-Date Fair Value (Per share)
Balances, January 30, 2011	10,612	$13.23
Granted	6,802	$16.43
Vested	(3,441)	$12.02
Cancelled	(713)	$14.62
Balances, October 30, 2011	13,260	$15.11

Note 3- Patent Cross License Agreement

On January 10, 2011, we entered into a six-year patent cross licensing agreement, or the License Agreement, with Intel Corporation. Under the License Agreement, Intel has granted to NVIDIA and its qualified subsidiaries, and NVIDIA has granted to Intel and Intel's qualified subsidiaries, a non-exclusive, non-transferable, worldwide license, without the right to sublicense to all patents that are either owned or controlled by the parties at any time that have a first filing date on or before March 31, 2017, to make, have made (subject to certain limitations), use, sell, offer to sell, import and otherwise dispose of certain semiconductor- and electronic-related products anywhere in the world. NVIDIA's rights to Intel's patents have certain specified limitations, including but not limited to, NVIDIA was not granted a license to: (1) certain microprocessors, defined in the License Agreement as "Intel Processors" or "Intel Compatible Processors;" (2) certain chipsets that connect to Intel Processors; or (3) certain flash memory products. In connection with the License Agreement, NVIDIA and Intel mutually agreed to settle all outstanding legal disputes. Under the License Agreement, Intel will pay NVIDIA an aggregate amount of $1.5 billion , payable in annual installments, as follows: a $300 million payment on each of January 18, 2011, January 13, 2012 and January 15, 2013 and a $200 million payment on each of January 15, 2014, 2015 and 2016.

Accounting for the Agreement

The License Agreement between NVIDIA and Intel includes multiple elements. As a result, we determined each element of the License Agreement, their fair value and when they should be recognized. We allocated the total consideration, comprising of the cash payments from Intel and the estimated fair value of the license we received from Intel, to the legal settlement and the license to Intel based on the estimated relative fair value of these elements as follows:

	(In thousands)
Legal settlement	$57,000
License to Intel	1,583,000
License from Intel	(140,000)
Total cash consideration	$1,500,000

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

The elements of the License Agreement are accounted for as follows:

1 Legal settlement: In connection with the License Agreement, both parties agreed to settle all outstanding legal disputes. The fair value allocated to the settlement of $57.0 million was recorded in the fourth quarter of fiscal year 2011, as a benefit to operating expense.

2 License to Intel: We will recognize $1,583.0 million in total, or $66.0 million per quarter, as revenue over the term of the agreement of six years, the period over which Intel will have access to newly filed NVIDIA patents. Consideration received in advance of the performance period has been classified as deferred revenue. In the third quarter and first nine months of fiscal year 2012, we recognized $66.0 million and $153.9 million of revenue, respectively, as our performance obligation under the agreement commencing on April 2011.

3 License from Intel: We recognized $140.0 million as an intangible asset upon execution of the agreement in the fourth quarter of fiscal year 2011. Amortization expense of $5.0 million per quarter will be charged to cost of sales over the seven year estimated useful life of the technology beginning in April 2011. In the third quarter and first nine months of fiscal year 2012, we recognized amortization expense of $5.0 million and $11.7 million, respectively.

Fair Value Determination

In determining the estimated fair value of the elements of the License Agreement, we assumed the highest and best use of each element from a market participant perspective. The inputs and assumptions used in our valuation included projected revenue, royalty rates, discount rates, useful lives and income tax rates, among others. The development of a number of these inputs and assumptions in the model required a significant amount of management judgment and is based upon a number of factors, including the selection of industry comparables, royalty rates, market growth rates and other relevant factors. Changes in any number of these assumptions may have had a substantial impact on the estimated fair value of each element. These inputs and assumptions represent management’s best estimate at the time of the transaction.

Note 4 – Net Income Per Share

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

	Three Months Ended		Nine Months Ended	
	October 30, 2011	October 31, 2010	October 30, 2011	October 31, 2010
	(In thousands, except per share data)			
Numerator:				
Net Income	$178,273	$84,862	$465,065	$81,495
Denominator:				
Denominator for basic net loss per share, weighted average shares	607,063	577,323	600,563	572,420
Effect of dilutive securities:				
Equity awards outstanding	6,497	5,325	14,125	12,080

Denominator for diluted net income per share, weighted average shares	613,560	582,648	614,688	584,500
Net Income per share:				
Basic net Income per share	$0.29	$0.15	$0.77	$0.14
Diluted net Income per share	$0.29	$0.15	$0.76	$0.14

Diluted net income per share for the three and nine months ended October 30, 2011 does not include the effect of anti-dilutive common equivalent shares from 25.1 million and 22.0 million stock options and RSUs, respectively. Diluted net income per share for the three and nine months ended October 31, 2010 does not include the effect of anti-dilutive common equivalent shares from 40.3 million and 27.9 million stock options and RSUs, respectively.

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Note 5 – Income Taxes

We recognized income tax expense of $26.5 million and $73.8 million for the three and nine months ended October 30, 2011, respectively and $18.7 million and $3.8 million for the three and nine months ended October 31, 2010, respectively. Income tax expense as a percentage of income before taxes, or our effective tax rate, was 13.0% and 13.7% for the three and nine months ended October 30, 2011, respectively and 18.1% and 4.4% for the three and nine months ended October 31, 2010, respectively.

Our effective tax rate on income before tax for the first nine months of fiscal year 2012 of 13.7% was lower than the United States federal statutory rate of 35.0% due primarily to income earned in jurisdictions where the tax rate is lower than the United States federal statutory tax rate. Further, our annual projected effective tax rate as of the first nine months of fiscal year 2012 of 15.2% differs from our effective tax rate for the first nine months of fiscal year 2012 of 13.7% due to favorable discrete events that occurred in the first nine months of fiscal year 2012 primarily attributable to the expiration of statutes of limitations in certain non-U.S. jurisdictions for which we had not previously recognized related tax benefits.

Our effective tax rate on income before tax for the first nine months of fiscal year 2011 of 4.4% was lower than the United States federal statutory rate of 35.0% primarily due to income earned in jurisdictions where the tax rate is lower than the United States federal statutory tax rate and the significant impact of certain discrete tax events that occurred during this time. Our annual projected effective tax rate as of the first nine months of fiscal year 2011 was 18.8% and differs from our effective tax rate for the first nine months of fiscal year 2011 of 4.4% due to favorable discrete events that occurred in the first nine months of fiscal year 2011 primarily attributable to the expiration of statutes of limitations in certain non-U.S. jurisdictions for which we had not previously recognized related tax benefits.

As of October 30, 2011, we recorded unrecognized tax benefits of approximately $28.1 million of which $16.1 million is in connection with the acquisition of Icera and $12.0 million is related to income tax positions taken in various jurisdictions. The $28.1 million of unrecognized tax benefits recorded as of October 30, 2011 consists of $8.1 million recorded in non-current income tax payable and $20.0 million reflected as a reduction to the related deferred tax assets. Additionally, we recognized tax benefits related to the expiration of statutes of limitations in certain non-U.S. jurisdictions in the nine months ended October 30, 2011 of approximately $7.5 million. There have been no other significant changes to our unrecognized tax benefits and any related interest or penalties from our fiscal year ended January 30, 2011. For the nine months ended October 30, 2011, there have been no material changes to our tax years that remain subject to examination by major tax jurisdictions.

While we believe that we have adequately provided for all uncertain tax positions, amounts asserted by tax authorities could be greater or less than our accrued position. Accordingly, our provisions on federal, state and foreign tax related matters to be recorded in the future may change as revised estimates are made or the underlying matters are settled or otherwise resolved with the respective tax authorities. As of October 30, 2011, 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 6 - 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 October 30, 2011. Based on our quarterly impairment review and having considered the guidance in the relevant accounting literature, we did not record any other than temporary impairment charges during the first nine months of fiscal year 2012. We concluded that our investments were appropriately valued and that no other than temporary impairment charges were necessary on our portfolio of available for sale investments as of October 30, 2011. The following is a summary of cash equivalents and marketable securities at October 30, 2011 and January 30, 2011:

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

	October 30, 2011			
	Amortized Cost	Unrealized Gain	Unrealized Loss	Estimated Fair Value
	(In thousands)			
Debt securities of United States government agencies	$607,828	$1,134	$(330)	$608,632
Corporate debt securities	1,105,438	2,840	(531)	1,107,747
Mortgage backed securities issued by United States government-sponsored enterprises	141,189	5,005	(31)	146,163
Money market funds	36,296			