NVIDIA CORP
Form 10-Q
November 29, 2006

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended July 30, 2006

OR

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

Commission file number: 0-23985

NVIDIA CORPORATION

(Exact name of registrant as specified in its charter)

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

2701 San Tomas Expressway

Santa Clara, California 95050

(408) 486-2000

(Address, including Zip Code, of Registrant s Principal Executive Offices

and Registrant s Telephone Number, including Area Code)

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

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

x Large accelerated filer ¨ Accelerated filer ¨ Non-accelerated filer

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

The number of shares of the registrant s common stock outstanding as of November 10, 2006 was 355,544,989 shares.

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NVIDIA CORPORATION

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS (Unaudited)

NVIDIA CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands)

(Unaudited)

	July 30, 2006	January 29, 2006 (As Restated) (1)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 388,423	$ 551,756
Marketable securities	462,744	398,418
Accounts receivable, net	459,636	318,186
Inventories	378,661	254,870
Prepaid expenses and other current assets	34,143	24,387
Deferred income taxes	2,682	2,682
Total current assets	1,726,289	1,550,299
Property and equipment, net	177,144	178,152
Deposits and other assets	37,527	27,477
Goodwill	203,657	145,317
Intangible assets, net	29,428	15,421
Deferred income taxes, non-current	9,784	38,021
	$ 2,183,829	$ 1,954,687
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 230,916	$ 179,395
Accrued liabilities	274,128	259,264
Total current liabilities	505,044	438,659
Other long-term liabilities	24,237	20,036
Commitments and contingencies - see Note 12 and Note 14		
Stockholders equity:		
Preferred stock		
Common stock	373	360
Additional paid-in capital	1,117,121	965,604
Deferred compensation		(3,604)
Treasury stock	(387,120)	(212,142)
Accumulated other comprehensive loss, net	(2,374)	(1,957)
Retained earnings	926,548	747,731
Total stockholders equity	1,654,548	1,495,992

	$ 2,183,829	$ 1,954,687

(1) See Note 2, Restatement of Consolidated Financial Statements, Audit Committee and Company Findings of the Notes to Condensed Consolidated Financial Statements.

See accompanying notes to condensed consolidated financial statements.

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NVIDIA CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except per share data)

(Unaudited)

	Three Months Ended		Six Months Ended	
	July 30, 2006	July 31, 2005 (As Restated) (1)	July 30, 2006	July 31, 2005 (As Restated) (1)
Revenue	$ 687,519	$ 574,812	$ 1,369,326	$ 1,158,658
Cost of revenue (A)	395,391	357,437	788,525	731,422
Gross profit	292,128	217,375	580,801	427,236
Operating expenses:				
Research and development (A)	127,257	87,113	250,459	174,948
Sales, general and administrative (A)	69,055	52,669	133,017	95,886
Total operating expenses	196,312	139,782	383,476	270,834
Operating income	95,816	77,593	197,325	156,402
Interest income	8,818	4,867	17,626	8,762
Interest expense	(6)	(2)	(7)	(12)
Other income (expense), net	(106)	354	(350)	842
Income before income tax expense	104,522	82,812	214,594	165,994
Income tax expense	17,769	8,979	36,481	26,639
Income before change in accounting principle	86,753	73,833	178,113	139,355
Cumulative effect of change in accounting principle			704	
Net income	$ 86,753	$ 73,833	$ 178,817	$ 139,355
Basic net income per share:				
Prior to cumulative effect of change in accounting principle	$ 0.25	$ 0.22	$ 0.51	$ 0.41
Cumulative effect of change in accounting principle				
Basic net income per share	$ 0.25	$ 0.22	$ 0.51	$ 0.41
Shares used in basic per share computation	350,244	337,886	349,090	337,590
Diluted net income per share:				
Prior to cumulative effect of change in accounting principle	$ 0.22	$ 0.20	$ 0.46	$ 0.39
Cumulative effect of change in accounting principle				
Diluted net income per share	$ 0.22	$ 0.20	$ 0.46	$ 0.39
Shares used in diluted per share computation	385,589	361,674	387,485	361,287

(A) Results for the three and six months ended July 30, 2006 and July 31, 2005 include stock-based compensation expense, net of associated payroll taxes, as follows (in thousands):

	Three Months Ended		Six Months Ended	
	July 30, 2006	July 31, 2005 (As Restated)	July 30, 2006	July 31, 2005 (As Restated)
Cost of revenue	$ 1,746	$ 159	$ 2,973	$ 451
Research and development	16,588	1,299	31,014	3,221
Sales, general and administrative	10,532	986	17,104	(3,855)

(1) See Note 2, Restatement of Consolidated Financial Statements, Audit Committee and Company Findings of the Notes to Condensed Consolidated Financial Statements.

See accompanying notes to condensed consolidated financial statements.

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NVIDIA CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Six Months Ended	
	July 30, 2006	July 31, 2005 (As Restated) (1)
Cash flows from operating activities:		
Net income	$ 178,817	$ 139,355
Adjustments to reconcile net income to net cash provided by operating activities:		
Cumulative effect of change in accounting principle	(704)	
In-process research and development	602	
Depreciation and amortization	48,239	49,667
Deferred income taxes	28,237	
Stock-based compensation	51,953	5,105
Bad debt expense (recovery)	15	(477)
Excess tax benefits from stock-based compensation	(14,362)	
Other	36	85
Changes in operating assets and liabilities net of acquisitions:		
Accounts receivable	(132,259)	(48,637)
Inventories	(118,315)	14,563
Prepaid expenses and other current assets	(8,883)	(4,937)
Deposits and other assets	(4,399)	(6,943)
Accounts payable	32,508	(17,176)
Accrued liabilities	5,913	6,321
Net cash provided by operating activities	67,398	136,926
Cash flows from investing activities:		
Purchases of marketable securities	(159,034)	(133,214)
Sales and maturities of marketable securities	94,293	115,614
Purchases of property and equipment and intangible assets	(40,778)	(42,689)
Acquisition of businesses, net of cash and cash equivalents	(67,026)	
Net cash used in investing activities	(172,545)	(60,289)
Cash flows from financing activities:		
Common stock issued under employee stock plans	102,430	55,895
Stock repurchase	(174,978)	(98,509)
Excess tax benefits from stock-based compensation	14,362	
Other		(365)
Net cash used in financing activities	(58,186)	(42,979)
Change in cash and cash equivalents	(163,333)	33,658
Cash and cash equivalents at beginning of period	551,756	208,512
Cash and cash equivalents at end of period	$ 388,423	$ 242,170

Supplemental disclosures of cash flow information:				
Cash paid for interest	$		$	12
Cash paid for income taxes, net	$	24,645	$	1,838
Other non-cash activities:				
Assets acquired by assuming related liabilities	$	13,506		
Application of customer advance to accounts receivable	$		$	10,000
Unrealized losses from marketable securities	$	697	$	944
Deferred compensation	$	3,604	$	74

(1) See Note 2, Restatement of Consolidated Financial Statements, Audit Committee and Company Findings of the Notes to Condensed Consolidated Financial Statements.

See accompanying notes to condensed consolidated financial statements.

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NVIDIA CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1 - Summary of Significant Accounting Policies

Basis of presentation

The accompanying unaudited condensed consolidated financial statements were prepared in accordance with accounting principles generally accepted in the United States of America 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/A for the year ended January 29, 2006.

Fiscal year

We operate on a 52 or 53-week year, ending on the Sunday nearest January 31. The first and second quarters of fiscal 2007 and fiscal 2006 were all 13-week quarters.

Reclassifications

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

Use of Estimates

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

Recently Issued Accounting Pronouncements

In July 2006, the Financial Accounting Standards Board, or FASB, issued Interpretation No. 48, or FIN 48, *Accounting for Uncertainty in Income Taxes*. FIN 48 applies to all tax positions related to income taxes subject to FASB Statement 109, *Accounting for Income Taxes*. Under FIN 48 a company would recognize the benefit from a tax position only if it is more-likely-than-not that the position would be sustained upon audit based solely on the technical merits of the tax position. FIN 48 clarifies how a company would measure the income tax benefits from the tax positions that are recognized, provides guidance as to the timing of the derecognition of previously recognized tax benefits, and describes the methods for classifying and disclosing the liabilities within the financial statements for any unrecognized tax benefits. FIN 48 also addresses when a company should record interest and penalties related to tax positions and how the interest and penalties may be classified within the financial statements. Any differences between tax liability amounts recognized in the statements of operations as a result of adoption of FIN 48 would be accounted for as a cumulative effect adjustment to the beginning balance of retained earnings. FIN 48 is effective for fiscal years beginning after December 15, 2006. The provisions of FIN 48 will be effective as of first quarter of fiscal 2008. We are currently evaluating the impact that FIN 48 might have on our financial statements. We believe that the cumulative effect of adoption of FIN 48 could result in a change to the beginning balance of retained earnings.

In September 2006, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 108, or SAB No. 108, *Considering the Effects of Prior Year Misstatements When Quantifying Misstatements in Current Year Financial Statements*, which provides interpretive guidance on how the effects of the carryover or reversal of prior year misstatements should be considered in quantifying a current year misstatement. We will be required to adopt the provisions of SAB No. 108 in our fiscal year 2008. We do not believe the adoption of SAB No.

108 will have a material impact on our consolidated financial position, results of operations or cash flows.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*. SFAS No. 157 establishes a framework for measuring fair value and expands disclosures about fair value measurements. The changes to current practice resulting from the application of this Statement relate to the definition of fair value, the methods used to measure fair value, and the expanded disclosures about fair value measurements. We will be required to adopt the provisions of SFAS No. 157 beginning with our fiscal quarter ending April 29, 2007. We do not believe the adoption of SFAS No. 157 will have a material impact on our consolidated financial position, results of operations or cash flows.

Note 2 - Restatement of Consolidated Financial Statements, Audit Committee and Company Findings

In May 2006, following media reports of stock option accounting investigations at other companies, the management of NVIDIA decided to conduct a review of stock option grants made by NVIDIA. Management advised our Board of Directors of the review at a regularly-scheduled meeting of the Board of Directors on May 25, 2006. The Board of Directors directed management to report its findings to the Audit Committee. Management presented its findings to the Audit Committee in late June 2006. Following that presentation, the Audit Committee determined that it should perform its own independent review of stock option grants made by NVIDIA. The Audit Committee, with the assistance of outside legal counsel, began its review on approximately June 29, 2006.

The Audit Committee s review was completed on November 13, 2006 when the Audit Committee reported its findings to the full Board of Directors. The review covered option grants to all employees, directors and consultants for all grant dates during the period from our initial public offering in January 1999 through June 2006. As part of its review, the Audit Committee determined whether the correct measurement dates had been used under applicable accounting principles for these options. The measurement date means the date on which the option is deemed granted under applicable accounting principles, namely Accounting Principles Board Opinion No. 25, or APB 25, *Accounting for Stock Issued to Employees* and related interpretations, and is the first date on which all of the following are known: (1) the individual employee who is entitled to receive the option grant, (2) the number of options that an individual employee is entitled to receive, and (3) the option s exercise price.

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NVIDIA CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

(Unaudited)

Based on the findings of the Audit Committee and our internal review, we identified a number of occasions on which we used an incorrect measurement date for financial accounting and reporting purposes. These errors resulted primarily from our use during our fiscal years 2000, 2001 and 2002, of certain date selection methods discussed below which resulted in employees receiving options with stated exercise prices lower than the market prices as measured based upon the actual grant dates. We ceased using such practices beginning in our fiscal year 2003. The Audit Committee found that, beginning in our fiscal year 2003, we improved our stock option grant processes and have generally granted and priced our employee stock options in an objective and consistent manner since that time. However, for one Company-wide annual stock option grant we made in fiscal 2004, we did not finalize the number of options allocated to each employee as of the stated grant date in May 2003, which resulted in stock-based compensation charges due to the change in the measurement date to the date the grants were finalized. The Audit Committee s review did not identify any additional stock-based compensation charges from measurement date issues subsequent to that fiscal 2004 grant.

In accordance with APB 25, with respect to periods through January 29, 2006, we should have recorded stock-based compensation expense to the extent that the fair market value of our common stock on the correct measurement date exceeded the exercise price of each option granted. For periods commencing January 30, 2006 (the beginning of our fiscal year 2007), we record stock-based compensation expense in accordance with Statement of Financial Accounting Standards No. 123(R) (revised), or SFAS No. 123(R), *Share-Based Payment*. Changes in measurement dates have also contributed to incremental fair value of options under SFAS No. 123. As of the end of our fiscal year 2006, the unamortized incremental fair value charges resulting from the Audit Committee s review were approximately $13.0 million, of which approximately $9.0 million are expected to be amortized in our fiscal year 2007.

As a result of the measurement date errors identified from the Audit Committee s review, through January 29, 2006, we recorded aggregate non-cash stock-based compensation charges of $127.4 million, net of related tax effects. These charges were based primarily on APB 25 (intrinsic value-based) charges and associated payroll taxes of $199.6 million on a pre-tax basis, which are being amortized over the vesting term of the stock options in accordance with Financial Accounting Standards Board Interpretation No. 28, or FIN 28, *Accounting for Stock Appreciation Rights and Other Variable Stock Option or Award Plans*. We have amortized a substantial portion of these charges to expense during our fiscal years 2000 to 2006. If an option is forfeited prior to vesting, we reverse both the charges amortized to expense in prior periods as well as any remaining unamortized deferred stock-based compensation associated with the forfeited options. Accordingly, our net stock-based compensation charges amortized to our statement of income are lower than the aggregate stock-based compensation charges based on APB 25 (intrinsic-value based). As of January 29, 2006, the remaining APB 25 (intrinsic value-based) unamortized deferred stock-based compensation related to the errors identified during the review was approximately $3.0 million.

The types of errors we identified were as follows:

Improper Measurement Dates for Company-Wide Annual or Retention Stock Option Grants. We determined that, in connection with certain annual or retention stock option grants that we made to employees during our fiscal years 2000, 2001, 2002, 2003 and 2004, the final number of shares that an individual employee was entitled to receive was not determined and/or the proper approval of the related stock option grant had not been given until after the stated grant date. Therefore, the measurement date for such options for accounting purposes was actually subsequent to the stated grant date, resulting in new measurement dates for the related options.

Improper Measurement Dates for Stock Option Grants during Fiscal Years 2001 and 2002. In connection with stock option grants that we made to newly-hired employees (and, to a much lesser degree, retention grants to existing employees) during fiscal years 2001 and 2002, our practice was to grant stock options with an exercise price based upon the lowest closing price of our common stock in the last few days of the month of hire or the last few days of any subsequent month in the quarter of hire. The selection of the grant date of the related option grants would be made at the end of the fiscal quarter and was based on achieving the lowest exercise price for the affected employees. As a result of these practices, the measurement date for such options for accounting purposes was actually subsequent to the stated grant date, resulting in new measurement dates for the related options.

Improper Measurement Dates for Stock Option Grants during Fiscal Year 2000. In connection with certain stock option grants to newly-hired employees (and, to a much lesser degree, retention grants to existing employees) during a portion of fiscal year 2000, our practice was to delay the selection of the related grant dates until the end of a two-month period in the fiscal quarter during which the employees who received the grants began their employment with NVIDIA. As a result of this practice, the exercise price of the related option grants was not determined until subsequent to the stated grant date. We also determined that, during fiscal year 2000, we generally set the grant date and exercise price of employee option grants for new hires and promotions at the lowest price of the last few business days of the month of their hire or promotion (or of the following month in certain two-month periods that were chosen for an indeterminate reason). As a result of these practices, the measurement date for such options for accounting purposes was actually subsequent to the stated grant date, resulting in new measurement dates for the related options. In addition, we also determined that the exercise price or the number of options to be granted had not been determined, or the proper approval had not been given, for various other miscellaneous option grants during fiscal year 2000 until after the stated grant date - resulting in new measurement dates for accounting purposes for the related options.

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NVIDIA CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

(Unaudited)

Other Issues Identified. We also identified instances where stock option grants did not comply with applicable terms and conditions of the stock plans from which the grants were issued. For example, two grants were made to officers of NVIDIA by the chief executive officer under delegated authority; however, under the terms of the applicable plan, the option grant should have been made by our Board or the Compensation Committee. There were also instances where (1) option grants were made to a small group of employees who joined NVIDIA pursuant to a business combination, and to a few other employees in certain instances, with stated exercise prices below the fair market value of our common stock on the actual measurement date of the related grants; and (2) option grants were made to a few individuals who were contractors rather than employees, without recording the appropriate accounting charges. The accounting impact of these items was cumulatively less than $6.0 million. In addition, the Audit Committee did not find any evidence that these violations were committed for improper purposes.

The Audit Committee carefully considered the involvement of current members of management in the option grant process and concluded that the evidence did not give rise to any concern about the integrity of any current officer or director of NVIDIA. The Audit Committee also found that the accounting errors and improper practices brought to light during their review were not motivated by any intent to mislead investors, improve NVIDIA s reported financial results, or obtain any personal benefit. Based on its findings, the Audit Committee was unable to reach any conclusion regarding the integrity of former officers and employees.

As a result of the errors we identified, we have restated our historical financial statements from our fiscal year 2000 through our fiscal year 2006 to record $127.4 million of charges related to stock-based compensation and associated payroll tax expense, net of related income tax effects. These errors resulted in after-tax charges of $1.4 million, $11.7 million and $25.8 million for our fiscal years 2006, 2005 and 2004, respectively. Additionally, the cumulative effect of the related after-tax charges for periods prior to our fiscal year ended January 25, 2004 was $88.4 million. These additional stock-based compensation expense charges were non-cash and had no impact on our reported revenue, cash, cash equivalents or marketable securities for each of the restated periods.

As part of the restatement, for the three and six month period ended July 31, 2005, we recorded incremental stock-based compensation charges of $2.0 million and $4.5 million, a net (benefit)/charge for payroll taxes resulting from the expiration of statute of limitations of $0.4 million and $(4.7) million, and associated income tax (benefit)/charges of $(1.4) million and $0.1 million, respectively.

For all periods through the end of our fiscal year 2006, we have recorded aggregate non-cash stock-based compensation charges of $190.2 million, associated payroll tax charges of $9.4 million and a related income tax benefit of $72.2 million.

As part of this restatement, we also accrued liabilities and recorded charges to operating costs and expenses for certain payroll tax contingencies related to the incremental stock-based compensation expense in the amount of $18.8 million for all annual periods from our fiscal year 2000 through our fiscal year 2006. We recorded such charges in the amount of $3.1 million, $1.3 million, and $1.6 million for our fiscal years 2006, 2005 and 2004, respectively. Upon expiration of the related statute of limitations, we also recorded benefits from the reversal of previously-recorded payroll tax liabilities of $6.6 million and $2.8 million in our fiscal years 2006 and 2005, respectively. As a result, the net benefit to our statements of income was $3.5 million and $1.5 million for our fiscal years 2006 and 2005, respectively. The cumulative payroll tax expense for periods prior to our fiscal year 2004 was $12.8 million. For those stock option grants that we determined to have incorrect measurement dates for accounting purposes and that we had originally issued as incentive stock options, or ISOs, we recorded a liability for payroll tax contingencies in the event such grants would not be respected as ISOs under the principles of the Internal Revenue Code, or IRC, and the regulations thereunder. These liabilities were recorded with a charge to operating costs and expenses.

We also considered the application of Section 409A of the IRC to certain stock option grants where, under APB 25, intrinsic value existed at the time of grant. In the event such stock options grants are not respected as issued at fair market value at the original grant date under principles of the IRC and the regulations thereunder and are subject to Section 409A, we are considering potential remedial actions that may be available. We do not expect to incur a material charge as a result of any such potential remedial actions.

As a result of the findings of the Audit Committee, we concluded that we needed to amend our Annual Report on Form 10-K for the fiscal year ended January 29, 2006 to restate our consolidated financial statements for the years ended January 29, 2006, January 30, 2005, and January 25, 2004 and the related disclosures, and our Form 10-Q for the three months ended April 30, 2006.

The following table sets forth the impact of the additional non-cash charges for stock-based compensation expense and related tax effects on our historical financial statements for the three and six months ended July 31, 2005.

	Three Months Ended July 31, 2005			Six Months Ended July 31, 2005		
	As Previously Reported	Adjustments	As Restated	As Previously Reported	Adjustments	As Restated
	(In thousands, except share and per share data)					
Revenue	$ 574,812	$	$ 574,812	$ 1,158,658	$	$ 1,158,658
Cost of revenue (A)	357,278	159	357,437	730,971	451	731,422
Gross profit	217,534	(159)	217,375	427,687	(451)	427,236
Operating expenses:						
Research and development (A)	85,814	1,299	87,113	171,727	3,221	174,948
Sales, general and administrative (A)	51,683	986	52,669	99,741	(3,855)	95,886
Settlement costs						
Total operating expenses	137,497	2,285	139,782	271,468	(634)	270,834
Operating income	80,037	(2,444)	77,593	156,219	183	156,402
Interest income	4,867		4,867	8,762		8,762
Interest expense	(2)		(2)	(12)		(12)
Other income (expense), net	354		354	842		842
Income before income tax expense	85,256	(2,444)	82,812	165,811	183	165,994
Income tax expense	10,419	(1,440)	8,979	26,530	109	26,639
Net income	$ 74,837	$ (1,004)	$ 73,833	$ 139,281	$ 74	$ 139,355
Basic net income per share:	$ 0.22		$ 0.22	$ 0.41		$ 0.41
Diluted net income per share:	$ 0.21	(0.01)	$ 0.20	$ 0.39		$ 0.39
Shares used in basic per share computation	337,886		337,886	337,590		337,590
Shares used in diluted per share computation	361,580	94	361,674	361,224	63	361,287

(A) Results for the three and six months ended July 31, 2005 include stock-based compensation expense net of associated payroll taxes, as restated, as follows:

	Three Months Ended July 31, 2005 (As Restated)(1)	Six Months Ended July 31, 2005 (As Restated)(1)
Cost of revenue	$ 159	$ 451
Research and development	1,299	3,221
Sales, general and administrative	986	(3,855)

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NVIDIA CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

(Unaudited)

Note 3 - Stock-Based Compensation

Effective January 30, 2006, we adopted the provisions of Statement of Financial Accounting Standards No. 123(R), or SFAS No. 123(R), *Share-Based Payment*. SFAS No. 123(R) establishes accounting for stock-based awards exchanged for employee services. Accordingly, stock-based compensation cost is measured at grant date, based on the fair value of the awards, and is recognized as expense over the requisite employee service period.

Prior to the adoption of SFAS No. 123(R)

Prior to the adoption of SFAS No. 123(R), we applied Accounting Principles Board Opinion No. 25, or APB No. 25, *Accounting for Stock Issued to Employees*, and related interpretations to account for our stock-based employee compensation plans. As such, compensation expense was recorded if on the date of grant the current fair value per share of the underlying stock exceeded the exercise price per share. We provided the disclosures required under SFAS No. 123, *Accounting for Stock-Based Compensation*, as amended by SFAS No. 148, *Accounting for Stock-Based Compensation - Transition and Disclosures*, in our periodic reports.

The pro forma information required under SFAS No. 123(R) for periods prior to fiscal 2007 as if we had applied the fair value recognition provisions of SFAS No. 123 to awards granted under our equity incentive plans was as follows for the three and six months ended July 31, 2005:

	Three Months Ended July 31, 2005 (As Restated) (In thousands, except per share data)	Six Months Ended July 31, 2005 (As Restated) (In thousands, except per share data)
Net income, as reported	$ 73,833	$ 139,355
Add: Stock-based employee compensation expense included in reported net income, net of related tax effects	2,101	4,288
Deduct: Stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(25,438)	(44,589)
Pro forma net income	$ 50,496	$ 99,054
Basic net income per share - as reported	$ 0.22	$ 0.41
Basic net income per share - pro forma	$ 0.15	$ 0.29
Diluted net income per share - as reported	$ 0.20	$ 0.39
Diluted net income per share - pro forma	$ 0.14	$ 0.28

Impact of the adoption of SFAS No. 123(R)

We elected to adopt the modified prospective application method beginning January 30, 2006 as provided by SFAS No. 123(R). Accordingly, during the three and six months ended July 30, 2006, we recorded stock-based compensation expense equal to the amount that would have been recognized if the fair value method required for pro forma disclosure under SFAS No. 123 had been in effect for expense recognition purposes, adjusted for estimated forfeitures. We recognized stock-based compensation expense using the straight-line attribution method. Previously reported amounts have not been restated. The effect of recording stock-based compensation for the three and six month periods ended July 30, 2006 was as follows:

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

(Unaudited)

	Three Months Ended July 30, 2006 (In thousands, except per share data)	Six Months Ended July 30, 2006 (In thousands, except per share data)
Stock-based compensation expense by type of award:		
Employee stock options	$ 27,786	$ 49,405
Employee stock purchase plan	1,539	3,140
Amount capitalized as inventory	(459)	(1,454)
Total stock-based compensation	28,866	51,091
Tax effect of stock-based compensation	(3,009)	(5,745)
Net effect on net income	$ 25,857	$ 45,346
Effect on net income per share:		
Basic	$ 0.07	$ 0.13
Diluted	$ 0.07	$ 0.12

Prior to adopting SFAS No. 123(R), we presented all tax benefits resulting from the exercise of stock options as operating cash flows in our Statement of Cash Flows. However, as required by our adoption of SFAS No. 123(R) during the three and six months ended July 30, 2006, we began classifying cash flows resulting from excess tax benefits as a part of cash flows from financing activities. Excess tax benefits are realized tax benefits from tax deductions for exercised options in excess of the deferred tax asset attributable to stock-based compensation for such options. The effect of this change in classification on our Statement of Cash Flows for the three and six months ended July 30, 2006 is as follows:

	Three Months Ended July 30, 2006 (In thousands)	Six Months Ended July 30, 2006 (In thousands)
Cash flows from operations	$ (7,032)	$ (14,362)
Cash flows from financing activities	$ 7,032	$ 14,362

The adoption of SFAS No. 123(R) resulted in a cumulative benefit from accounting change of $0.7 million for the three months ended April 30, 2006, which reflects the net cumulative impact of estimating forfeitures in the determination of period expense, rather than recording forfeitures when they occur as previously permitted.

As of January 30, 2006, we had unearned stock-based compensation related to stock options of $167.9 million before the impact of estimated forfeitures. In our pro forma footnote disclosures prior to the adoption of SFAS No. 123(R), we accounted for forfeitures upon occurrence. SFAS No. 123(R) requires forfeitures to be estimated at the time of grant and revised if necessary in subsequent periods if actual forfeitures differ from those estimates. Accordingly, as of January 30, 2006, we estimated that stock-based compensation expense for the awards that are not expected to vest was $32.4 million, and, therefore, the unearned stock-based compensation expense related to stock options was adjusted to $135.5 million after estimated forfeitures.

During the three and six months ended July 30, 2006, we granted approximately 0.9 million and 6.8 million stock options, respectively, with an estimated total grant-date fair value of $9.7 million and $73.6 million, respectively, and a weighted average grant date fair value of $10.57 per option and $10.74 per option, respectively. Of this amount, we estimated that the stock-based compensation expense related to the awards that are not expected to vest was $1.9 million and $14.2 million for the three and six months ended July 30, 2006, respectively. During the three and six months ended July 30, 2006, we recorded stock-based compensation expense related to stock options of $27.8 million and $49.4 million, respectively.

As of July 30, 2006, the aggregate amount of unearned stock-based compensation expense related to our stock options was $176.3 million, adjusted for estimated forfeitures, which we will recognize over an estimated weighted average amortization period of 2.0 years.

Approximately $0.4 and $1.4 million of stock-based compensation was capitalized as inventory for the three months and six months ending July 30, 2006, respectively.

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Stock-based compensation expense that would have been recorded under APB No. 25 during the three and six months ended July 30, 2006 was approximately $0.8 million and $2.5 million, respectively. Upon our adoption of SFAS No. 123(R), we reclassified the unearned stock-based compensation expense balance of approximately $3.6 million that would have been recorded under APB No. 25 to additional-paid-in-capital in our Condensed Consolidated Balance Sheet.

Valuation Assumptions

During the three months ended May 1, 2005, we transitioned from a Black-Scholes model to a binomial model for calculating the estimated fair value of new stock-based compensation awards granted under our stock option plans. As a result of regulatory guidance, including SEC Staff Accounting Bulletin No. 107, *Share-Based Payment*, and in anticipation of the impending effective date of SFAS No. 123(R), we reevaluated the assumptions we used to estimate the value of employee stock options and shares issued under our employee stock purchase plan, beginning with stock options granted and shares issued under our employee stock purchase plan in the first quarter of fiscal 2006. At that time, our management also determined that the use of implied volatility is expected to be more reflective of market conditions and, therefore, could reasonably be expected to be a better indicator of our expected volatility than historical volatility. Additionally, in the first quarter of fiscal 2006, we began segregating options into groups for employees with relatively homogeneous exercise behavior in order to calculate the best estimate of fair value using the binomial valuation model. As such, the expected term assumption used in calculating the estimated fair value of our stock-based compensation awards using the binomial model is based on detailed historical data about employees exercise behavior, vesting schedules, and death and disability probabilities. Our management believes the resulting binomial calculation provides a more refined estimate of the fair value of our employee stock options. For our employee stock purchase plan we continued to use the Black-Scholes model. The fair value of stock options granted under our stock option plans, and shares issued under our employee stock purchase plan have been estimated at the date of grant using a straight-line attribution method with the following assumptions:

	Stock Options Three Months Ended		**Employee Stock Purchase Plan Three Months Ended**	
	July 30, 2006 *(Using a binomial model)*	**July 31, 2005** *(Using a binomial model)*	**July 30, 2006** *(Using the Black-Scholes model)*	**July 31, 2005** *(Using the Black-Scholes model)*
Expected life (in years)	3.6 - 5.1	3.6 - 5.1	0.5 2.0	0.5 - 2.0
Risk free interest rate	5.1%	4.1%	2.3% 4.6%	1.1% - 2.1%
Volatility	41% - 51%	40% - 46%	30% - 41%	41%
Dividend yield				

	Stock Options Six Months Ended		**Employee Stock Purchase Plan Six Months Ended**	
	July 30, 2006 *(Using a binomial model)*	**July 31, 2005** *(Using a binomial model)*	**July 30, 2006** *(Using the Black-Scholes model)*	**July 31, 2005** *(Using the Black-Scholes model)*
Expected life (in years)	3.6 5.1	3.6 - 5.1	0.5 2.0	0.5 - 2.0
Risk free interest rate	4.7% 5.1%	4.0%	1.6% - 4.6%	1.1% - 2.1%
Volatility	39% - 51%	37% - 48%	30% - 45%	41%
Dividend yield				

Equity Incentive Program

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

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2000 Nonstatutory Equity Incentive Plan. The 2000 Nonstatutory Equity Incentive Plan, or the 2000 Plan, provides for the issuance of our common stock to employees and affiliates who are not directors, officers or 10% stockholders. The 2000 Plan provides for the issuance of nonstatutory stock options, stock bonuses and restricted stock purchase rights. Option grants issued under the 2000 plan generally expire in six to ten years. Grants made after May 8, 2003 generally have six year terms. Until April 2004, initial options granted to new employees would vest over four years, with 25% of the shares vesting one year from the date of grant and the remaining 75% of the shares vesting each quarter over the subsequent three years. During this same time period, stock options granted to existing employees generally would vest each quarter over a four-year period from the date of grant. Beginning in April 2004, initial options granted to new employees generally vest over a three-year period on a quarterly basis. Grants to existing employees in recognition of performance generally also vest as to 25% of the shares two years and three months after the date of grant and as to the remaining 75% of the shares subject to the option vest in equal quarterly installments over a nine month period.

1998 Equity Incentive Plan. The Equity Incentive Plan, or the 1998 Plan, provides for the issuance of stock bonuses, restricted stock purchase rights, stock appreciation rights, incentive stock options or nonstatutory stock options. Option grants issued under the 1998 Plan generally expire in six to ten years. Vesting periods are determined by the Board of Directors, or Board, or the Compensation Committee of the Board. Initial option grants made after February 10, 2004 under the 1998 Plan to new employees generally vest over a three year period on a quarterly basis. Subsequent option grants to existing employees are generally granted for performance and generally vest as to 25% of the shares two years and three months after the date of grant and as to the remaining 75% of the shares subject to the option vest in equal quarterly installments over a nine month period.

1998 Non-Employee Directors Stock Option Plan. In February 1998, our Board of Directors adopted the 1998 Non-Employee Directors Stock Option Plan, or the Directors Plan, to provide for the automatic grant of non-qualified options to purchase shares of our common stock to our directors who are not employees or consultants of, or of an affiliate of, NVIDIA.

In July 2000, the Board of Directors amended the 1998 Plan to incorporate the automatic grant provisions of the Directors Plan into the 1998 Plan. Future automatic grants to non-employee directors will be made according to the terms of the Directors Plan, but will be made out of the 1998 Plan until such time as shares may become available for issuance under the amended Directors Plan. In May 2002, the Directors Plan was amended further to reduce the number of shares granted to our non-employee directors. The altered automatic grant provisions of the Directors Plan are also incorporated into the 1998 Plan. In March 2006, the Board amended the Directors Plan, to reduce the number of shares issuable pursuant to each of the initial non-employee director stock option grant and the annual non-employee director stock option grant by 40%. The Directors Plan was also amended to eliminate the annual option grant made to members of our Nominating and Corporate Governance Committee. The terms of the amended Directors Plan are described below.

Initial Grants. Initial stock option grants of 90,000 are automatically made to each non-employee director who is elected or appointed to our Board on the date of election or appointment.

Annual Grants Board Members. On August 1st of each year, each non-employee director is automatically granted an option to purchase 30,000 shares. These options begin to vest quarterly on the second anniversary of the date of grant and will be fully vested on the third anniversary of the date of grant.

Annual Grants Committee Members. On August 1st of each year, each non-employee director who is a member of a committee of the Board is automatically granted an option to purchase 10,000 shares. These options vest in full on the first anniversary of the date of the grant. Beginning in fiscal year 2007, Board members will no longer receive a Committee grant for serving as a member of the Nominating and Corporate Governance Committee.

Employee Stock Purchase Plan. The 1998 Employee Stock Purchase Plan, or the Purchase Plan, is intended to qualify as an employee stock purchase plan under Section 423 of the Internal Revenue Code. Under the Purchase Plan, the Board has authorized participation by eligible employees, including officers, in periodic offerings following the adoption of the Purchase Plan. Under the Purchase Plan, separate offering periods shall be no longer than 27 months. Under the current offering adopted pursuant to the Purchase Plan, each offering period is 24 months, which is divided into four purchase periods of 6 months.

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Employees are eligible to participate if they are employed by NVIDIA or an affiliate of NVIDIA as designated by the Board. Employees who participate in an offering may have up to 10% of their earnings withheld pursuant to the Purchase Plan up to certain limitations and applied on specified dates determined by the Board to purchase shares of our common stock. The Board may increase this percentage at its discretion, up to 15%. The price of common stock purchased under the Purchase Plan will be equal to the lower of the fair market value of the common stock on the commencement date of each offering period and the purchase date of each offering period at 85% at the fair market value of the common stock on the relevant purchase date. Employees may end their participation in the Purchase Plan at any time during the offering period, and participation ends automatically on termination of employment with us and in each case their contributions are refunded.

The following table summarizes the combined activity under the 2000 Plan, 1998 Plan, and the Directors Plan as of and for the six months ended July 30, 2006:

	Options Available for Grant	Options Outstanding	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Balances, January 29, 2006	31,310,976	87,958,480	$ 9.50		
Authorized					
Granted	(6,807,088)	6,807,088	27.01		
Exercised		(11,544,368)	7.86		
Cancelled	1,090,344	(1,090,344)	12.19		
Balances, July 30, 2006	25,594,222	82,130,866	$ 11.14	4.1	$ 978,467,916
Vested and expected to vest at July 30, 2006		79,509,041	$ 11.02	4.0	$ 927,026,941
Options exercisable at July 30, 2006		47,268,849	$ 8.30	3.7	$ 679,744,670

The aggregate intrinsic value in the table above represents the total pre-tax intrinsic value for in-the-money options at July 30, 2006, based on the $22.67 closing stock price of our common stock on The NASDAQ Global Select Market, which would have been received by the option holders had all option holders exercised their options as of that date. The total number of in-the-money options outstanding and exercisable as of July 30, 2006 was 76.7 million and 47.2 million, respectively.

	Three Months Ended July 30, 2006	Six Months Ended July 30, 2006
Weighted average grant date fair value of options granted	$ 10.57 per share	$ 10.74 per share
Total intrinsic value of options exercised	$ 34.8 million	$ 196.5 million
Total cash received from employees as a result of employee stock option exercises	$ 15.8 million	$ 90.7 million
Tax benefits realized as a result of employee stock option exercises	$ 11.1 million	$ 22.5 million

We settle employee stock option exercises with newly issued common shares. We do not have any equity instruments outstanding other than options described above as of July 30, 2006.

Note 4 - Net Income Per Share

Basic net income per share is computed using the weighted average number of common shares outstanding during the period. Diluted net income per share is computed using the weighted average number of common and dilutive common equivalent shares outstanding during the period, using the treasury stock method. Under the treasury stock method, the effect of stock options outstanding is not included in the computation of diluted net income per share for periods when their effect is anti-dilutive, which in the current period includes consideration of unearned stock-based compensation as required by SFAS No. 123(R). The following is a reconciliation of the numerators and denominators of the basic and diluted net income per share computations for the periods presented:

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	Three Months Ended		Six Months Ended	
	July 30, 2006	July 31, 2005 (As Restated)	July 30, 2006	July 31, 2005 (As Restated)
	(In thousands, except per share data)			
Numerator:				
Net income	$ 86,753	$ 73,833	$ 178,817	$ 139,355
Denominator:				
Denominator for basic net income per share, weighted average shares	350,244	337,886	349,090	337,590
Effect of dilutive securities:				
Stock options outstanding	35,345	23,788	38,395	23,697
Denominator for diluted net income per share, weighted average shares	385,589	361,674	387,485	361,287
Net income per share:				
Basic net income per share	$ 0.25	$ 0.22	$ 0.51	$ 0.41
Diluted net income per share	$ 0.22	$ 0.20	$ 0.46	$ 0.39

Diluted net income per share for the three and six months ended July 30, 2006 does not include the effect of 7.5 million and 6.8 million anti-dilutive common equivalent shares, respectively. Diluted net income per share for the three and six months ended July 31, 2005 does not include the effect of 8.2 million and 22.6 million anti-dilutive common equivalent shares, respectively.

Note 5 - Acquisition of ULi Electronics, Inc.

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

We allocated the purchase price to tangible assets, liabilities and identifiable intangible assets acquired, as well as in-process research and development, or IPR&D, if identified, based on their estimated fair values. The excess of purchase price over the aggregate fair values was recorded as goodwill. The fair value assigned to identifiable intangible assets acquired was based on estimates and assumptions determined by management. Purchased intangibles are amortized on a straight-line basis over their respective useful lives. The allocation of the purchase price has been prepared on a preliminary basis and reasonable changes are expected as additional information becomes available. The following is a summary of estimated fair values of the assets we acquired and liabilities we assumed as of July 30, 2006:

	Fair Market Value (In thousands)	Straight-Line Depreciation/ Amortization Period
Cash	$ 21,551	
Accounts receivable	8,148	
Inventories	4,023	
Other assets	935	
Property and equipment	1,013	4 - 49 months
Goodwill	30,864	

Intangible assets:		
Existing technology	2,490	3 years
Customer relationships	653	3 years
Total assets acquired	69,677	
Current liabilities	(15,721)	
Acquisition related costs	(881)	
Total liabilities assumed	(16,602)	
Net assets acquired	$ 53,075	

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The pro forma results of operations have not been presented for the acquisition of ULi because the effect of this acquisition was not considered material.

Note 6 - Acquisition of Hybrid Graphics Ltd.

On March 29, 2006, we completed our acquisition of Hybrid Graphics Ltd., or Hybrid Graphics. Hybrid Graphics is a developer of embedded 2D and 3D graphics software for handheld devices. We believe that the acquisition will enable the customers of both companies to deploy rich graphics solutions for the worldwide handheld market. The aggregate purchase price consisted of cash consideration of approximately $36.7 million.

We allocated the purchase price to tangible assets, liabilities and identifiable intangible assets acquired, as well as IPR&D, if identified, based on their estimated fair values. The excess of purchase price over the aggregate fair values was recorded as goodwill. The fair value assigned to identifiable intangible assets acquired was based on estimates and assumptions determined by management. Purchased intangibles are amortized on a straight-line basis over their respective useful lives. The allocation of the purchase price has been prepared on a preliminary basis and reasonable changes are expected as additional information becomes available. The following is a summary of estimated fair values of the assets we acquired and liabilities we assumed as of July 30, 2006:

	Fair Market Value (In thousands)	Straight-Line Depreciation/ Amortization Period
Cash	$ 1,180	
Accounts receivable	1,056	
Other assets	74	
Property and equipment	238	1-36 months
In-process research and development	602	
Goodwill	27,460	
Intangible assets:		
Existing technology	5,179	3 years
Customer relationships	2,650	3 years
Trademark	482	3 years
Non-compete agreements	72	3 years
Total assets acquired	38,993	
Current liabilities	(1,301)	
Acquisition related costs	(719)	
Long-term liabilities	(301)	
Total liabilities assumed	(2,321)	
Net assets acquired	$ 36,672	

The amount of the IPR&D represents the value assigned to research and development projects of Hybrid Graphics that had commenced but had not yet reached technological feasibility and had no alternative future use. In accordance with SFAS No. 2, *Accounting for Research and*

Development Costs, as clarified by FIN 4, *Applicability of FASB Statement No. 2 to Business Combinations Accounted for by the Purchase Method an interpretation of FASB Statement No. 2*, amounts assigned to IPR&D meeting the above-stated criteria were charged to expense as part of the allocation of the purchase price.

The pro forma results of operations have not been presented for the acquisition of Hybrid Graphics because the effect of this acquisition was not considered material.

Note 7 - Guarantees

FASB Interpretation No. 45, or FIN 45, *Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others,* requires that upon issuance of a guarantee, the guarantor must recognize a liability for the fair value of the obligation it assumes under that guarantee. In addition, FIN 45 requires disclosures about the guarantees that an entity has issued, including a tabular reconciliation of the changes of the entity s product warranty liabilities.

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We record a reduction to revenue for estimated product returns at the time revenue is recognized primarily based on historical return rates. The reductions to revenue for estimated product returns for the three and six months ended July 30, 2006 and July 31, 2005 are as follows:

Description	Balance at Beginning of Period	Additions (1)	Deductions (2)	Balance at End of Period
		(In thousands)		
Three months ended July 30, 2006				
Allowance for sales returns	$ 11,566	$ 12,417	$ (11,602)	$ 12,381
Three months ended July 31, 2005				
Allowance for sales returns	$ 10,805	$ 8,213	$ (8,331)	$ 10,687
Six months ended July 30, 2006				
Allowance for sales returns	$ 10,239	$ 24,192	$ (22,050)	$ 12,381
Six months ended July 31, 2005				
Allowance for sales returns	$ 11,687	$ 14,144	$ (15,144)	$ 10,687

(1) Allowances for sales returns are charged as a reduction to revenue.
(2) Represents amounts written off against the allowance for sales returns.

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

Note 8 - Comprehensive Income

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

	Three Months Ended		Six Months Ended	
	July 30, 2006	July 31, 2005 (As Restated)	July 30, 2006	July 31, 2005 (As Restated)
		(In thousands)		
Net income	$ 86,753	$ 73,833	$ 178,817	$ 139,355
Net change in unrealized losses on available-for-sale securities	156	(526)	(656)	(1,245)

Tax effect of unrealized losses on available-for-sale securities	(63)	105	262	249
Reclassification adjustments for net realized losses on available-for-sale securities included in net income	(28)	138	(41)	301
Tax effect of reclassification adjustments for net realized losses on available-for-sale securities included in net income	11	(27)	17	(60)
Total comprehensive income	$ 86,829	$ 73,523	$ 178,399	$ 138,600

Note 9 - 3dfx Asset Purchase

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. The 3dfx asset purchase was accounted for under the purchase method of accounting and closed on April 18, 2001. Under the terms of the Asset Purchase Agreement, the cash consideration due at the closing was $70.0 million, less $15.0 million that was loaned to 3dfx pursuant to a Credit Agreement dated December 15, 2000. The Asset Purchase Agreement also provided, subject to the other provisions thereof, that if 3dfx properly certified that all its debts and other liabilities had been provided for, then we would have been obligated to pay 3dfx two million shares of NVIDIA common stock. If 3dfx could not make such a certification, but instead properly certified that its debts and liabilities could be satisfied for less than $25.0 million,

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then 3dfx could have elected to receive a cash payment equal to the amount of such debts and liabilities and a reduced number of shares of our common stock, with such reduction calculated by dividing the cash payment by $25.00 per share. If 3dfx could not certify that all of its debts and liabilities had been provided for, or could not be satisfied for less than $25.0 million, we would not be obligated under the agreement to pay any additional consideration for the assets.

In October 2002, 3dfx filed for Chapter 11 bankruptcy protection in the United States Bankruptcy Court for the Northern District of California. In March 2003, we were served with a complaint filed by the Trustee appointed by the Bankruptcy Court which sought, among other things, payments from us as additional purchase price related to our purchase of certain assets of 3dfx. In early November 2005, after many months of mediation, NVIDIA and the Official Committee of Unsecured Creditors of 3dfx reached a conditional settlement of the Trustee s claims against NVIDIA. This conditional settlement, which will be subject to the review and approval of the Bankruptcy Court, calls for a payment of approximately $30.6 million to the 3dfx estate. Under the settlement, $5.6 million relates to various administrative expenses and Trustee fees, and $25.0 million relates to the satisfaction of debts and liabilities owed to the general unsecured creditors of 3dfx. As such, during the three months 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. Please see Note 14 for further information regarding this litigation.

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.

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

The final allocation of the purchase price of the 3dfx assets is contingent upon the amount of and circumstances surrounding additional consideration, if any, that we may pay related to the 3dfx asset purchase.

Note 10 - Goodwill and Intangible Assets

We are currently amortizing our intangible assets with definitive lives over periods ranging from 1 to 5 years on a straight-line basis. The components of our amortizable intangible assets are as follows:

	July 30, 2006			January 29, 2006		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
	(In thousands)					
Technology licenses	$ 23,086	$ (15,549)	$ 7,537	$ 21,586		