

NVIDIA CORP
Form 10-Q
May 21, 2014

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

FORM 10-Q

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

For the quarterly period ended April 27, 2014

OR

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

Commission file number: 0-23985

NVIDIA CORPORATION

(Exact name of registrant as specified in its charter)

Delaware
(State or Other Jurisdiction of
Incorporation or Organization)

94-3177549
(I.R.S. Employer
Identification No.)

2701 San Tomas Expressway
Santa Clara, California 95050
(408) 486-2000

(Address, including zip code, and telephone number,
including area code, of principal executive offices)

N/A

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes Q No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes Q No o

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

Accelerated filer o

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Large accelerated filer x

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

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

The number of shares of common stock, \$0.001 par value, outstanding as of May 16, 2014, was 557,966,266.

NVIDIA CORPORATION
 FORM 10-Q
 FOR THE QUARTER ENDED April 27, 2014

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WHERE YOU CAN FIND MORE INFORMATION

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

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

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

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

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

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

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)

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

(In thousands, except per share data)

	Three Months Ended	
	April 27, 2014	April 28, 2013
Revenue	\$1,102,787	\$954,739
Cost of revenue	498,585	436,171
Gross profit	604,202	518,568
Operating expenses		
Research and development	334,263	327,161
Sales, general and administrative	118,580	108,626
Total operating expenses	452,843	435,787
Income from operations	151,359	82,781
Interest income	5,710	5,076
Interest expense	11,471	853
Other income, net	17,684	1,058
Income before income tax expense	163,282	88,062
Income tax expense	26,766	10,171
Net income	\$136,516	\$77,891
Net income per share:		
Basic	\$0.24	\$0.13
Diluted	\$0.24	\$0.13
Weighted average shares used in per share computation:		
Basic	559,092	616,872
Diluted	570,422	619,302
Cash dividends declared and paid per common share	\$0.085	\$0.075

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	Three Months Ended	
	April 27, 2014	April 28, 2013
Net income	\$136,516	\$77,891
Other comprehensive income, net of tax:		
Net change in unrealized gains (losses) on available-for-sale securities, net of tax effect of (\$469) and \$(277) in the first quarter of fiscal years 2015 and 2014, respectively	1,684	391
Reclassification adjustments for net realized gains on available-for-sale securities included in net income, net of tax effect of \$106 and \$43 in the first quarter of fiscal years 2015 and 2014, respectively	(197	) (79
Other comprehensive income	\$1,487	\$312
Total comprehensive income	\$138,003	\$78,203

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	April 27, 2014	January 26, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	\$509,165	\$1,151,587
Marketable securities	3,838,652	3,520,223
Accounts receivable, net	396,438	426,357
Inventories	393,280	387,765
Prepaid expenses and other	71,067	70,285
Deferred income taxes	65,196	68,494
Total current assets	5,273,798	5,624,711
Property and equipment, net	570,802	582,740
Goodwill	643,179	643,179
Intangible assets, net	277,530	296,012
Other assets	99,354	104,252
Total assets	\$6,864,663	\$7,250,894
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$309,008	\$324,391
Accrued liabilities and other	588,937	621,105
Total current liabilities	897,945	945,496
Long-term debt	1,363,276	1,356,375
Other long-term liabilities	419,774	475,125
Capital lease obligations, long-term	16,683	17,500
Commitments and contingencies - see Note 12	—	—
Stockholders' equity:		
Preferred stock	—	—
Common stock	743	732
Additional paid-in capital	3,492,140	3,483,342
Treasury stock, at cost	(2,926,789)	(2,537,295)
Accumulated other comprehensive income	6,364	4,877
Retained earnings	3,594,527	3,504,742
Total stockholders' equity	4,166,985	4,456,398
Total liabilities and stockholders' equity	\$6,864,663	\$7,250,894

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	Three Months Ended	
	April 27, 2014	April 28, 2013
Cash flows from operating activities:		
Net income	\$136,516	\$77,891
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	55,083	59,744
Stock-based compensation expense	35,521	33,397
Amortization of debt discount	6,901	—
Gain on sale of long-lived assets and investments	(16,982)) —
Deferred income taxes	21,464	(3,063)
Tax benefits from stock-based compensation	(4,086)	) (10,120)
Other	7,281	4,988
Changes in operating assets and liabilities:		
Accounts receivable	28,077	108,476
Inventories	(5,679)	) 41,510
Prepaid expenses and other current assets	(782)	) 7,367
Deposits and other assets	229	1,806
Accounts payable	(14,880)	) (53,101)
Accrued liabilities and other long-term liabilities	(97,641)	) (93,245)
Net cash provided by operating activities	151,022	175,650
Cash flows from investing activities:		
Purchases of marketable securities	(1,001,073)	) (541,950)
Proceeds from sale of marketable securities	544,878	199,199
Proceeds from maturities of marketable securities	134,079	179,082
Proceeds from sale of long-lived assets and investments	20,862	—
Purchases of property and equipment and intangible assets	(29,068)	) (65,667)
Other	—	(1,450)
Net cash used in investing activities	(330,322)	) (230,786)
Cash flows from financing activities:		
Proceeds from issuance of common stock under employee stock plans	80,232	22,996
Payments under capital lease obligations	(709)	) (576)
Tax benefits from stock-based compensation	4,086	10,120
Payments for repurchases of common stock	(500,000)	) (100,000)
Dividends paid	(46,731)	) (46,267)
Other	—	(2,500)
Net cash used in financing activities	(463,122)	) (116,227)
Change in cash and cash equivalents	(642,422)	) (171,363)
Cash and cash equivalents at beginning of period	1,151,587	732,786
Cash and cash equivalents at end of period	\$509,165	\$561,423
Supplemental disclosures of cash flow information:		
Cash paid for income taxes, net	\$2,410	\$2,286
Cash paid for interest on capital lease obligations	\$591	\$655
Other non-cash activities:		
Assets acquired by assuming related liabilities	\$2,824	\$41,341

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, 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 26, 2014.

Fiscal Year

We operate on a 52- or 53-week year, ending on the last Sunday in January. Fiscal year 2015 and fiscal year 2014 are both 52-week years. The first quarters of fiscal years 2015 and 2014 are both 13-week quarters.

Principles of Consolidation

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

Reclassifications

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

Use of Estimates

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

Revenue Recognition

Product Revenue

We recognize revenue from product sales when persuasive evidence of an arrangement exists, the product has been delivered, the price is fixed or determinable and collection of the related receivable is reasonably assured. For most sales, we use a binding purchase order and in certain cases we use a contractual agreement as evidence of an

arrangement. We consider delivery to occur upon shipment provided title and risk of loss have passed to the customer. At the point of sale, we assess whether the arrangement fee is fixed or determinable and whether collection is reasonably assured. If we determine that collection of a fee is not reasonably assured, we defer the fee and recognize revenue at the time collection becomes reasonably assured, which is generally upon receipt of payment. Our policy on sales to certain distributors with rights of return is to defer recognition of revenue and related cost of revenue until the distributors resell the product, as the level of returns cannot be reasonably estimated.

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

Our customer programs primarily involve rebates, which are designed to serve as sales incentives to resellers of our products in various target markets. We account for rebates as a reduction of revenue and accrue for 100% of the potential rebates and do not apply a breakage factor. While we have a long history of rebate arrangements with original equipment manufacturers, or OEMs, we believe we are unable to apply our historical experience to reliably estimate the amount of rebates that will eventually be claimed by individual OEMs. The OEMs are not our direct customers and the quantity and mix of demand they place on contract equipment manufacturers and original design manufacturers may shift as we introduce new generations and iterations of products and as we experience changes in new competitor offerings. In addition, we typically find that approximately 95% of the rebates we accrue each year are eventually claimed, which is substantially close to 100%, and that this percentage varies by program and by customer. 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, the amount of which typically represents approximately 0.5% of total revenue.

Our customer programs also include marketing development funds, or MDFs. MDFs represent monies paid to retailers, system builders, 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 account for MDFs as a reduction of revenue and apply a breakage factor to certain types of MDF program accruals for which we believe we can make a reasonable and reliable estimate of the amount that will ultimately be unclaimed. MDF amounts that have been previously recorded against revenue and subsequently expired unclaimed are reversed to revenue. Such amounts have not been significant.

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

License and Development Revenue

For license arrangements that require significant customization of our intellectual property components, we generally recognize the related revenue over the period that services are performed. For most license and service arrangements, we determine progress to completion based on actual direct labor hours incurred to date as a percentage of the estimated total direct labor hours required to complete the project. We periodically evaluate the actual status of each project to ensure that the estimates to complete each contract remain accurate. A provision for estimated losses on contracts is made in the period in which the loss becomes probable and can be reasonably estimated. Costs incurred in advance of revenue recognized are recorded as deferred costs on uncompleted contracts. If the amount billed exceeds the amount of revenue recognized, the excess amount is recorded as deferred revenue. Revenue recognized in any period is dependent on our progress toward completion of projects in progress. Significant management judgment and discretion are used to estimate total direct labor hours. Any changes in or deviations from these estimates could have a material effect on the amount of revenue we recognize in any period.

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

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

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

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, and shipping costs, as well as the cost of purchased memory products and other component parts. We charge cost of sales for inventory provisions to write down our inventory to the lower of cost or estimated market value or to completely write off obsolete or excess inventory. Most of our inventory provisions relate to the write-off of excess quantities of products, based on our inventory levels and future product purchase commitments compared to assumptions about future demand and market conditions. Once inventory has been written-off or written-down, it creates a new cost basis for the inventory that is not subsequently written-up.

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 potentially dilutive 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. Additionally, we issued convertible notes with a net settlement feature that requires us, upon conversion, to settle the principal amount of debt for cash and the conversion premium for cash or shares of our common stock. Our convertible notes, note hedges, and related warrants contain various conversion features, which are further described in Note 11 of these Notes to Condensed Consolidated Financial Statements. The potentially dilutive impact of the convertible notes and warrants under the treasury stock method will be included in the calculation of diluted shares when their conversion features are exercisable. However, unless actually exercised, the note hedges will not be included in the calculation of diluted shares, as their pre-exercised effect would be anti-dilutive under the treasury stock method.

Adoption of New and Recently Issued Accounting Pronouncements

In July 2013, the Financial Accounting Standards Board issued updated guidance regarding the presentation of unrecognized tax benefits when a net operating loss carry forward, similar tax loss, or tax credit carry forward exists. The guidance requires that an unrecognized tax benefit, or a portion of an unrecognized tax benefit, be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carry forward, a similar tax loss, or a tax credit carry forward when settlement in this manner is available under the tax law. We adopted this guidance in our interim period ended April 27, 2014. The adoption of this guidance did not impact our condensed consolidated financial statements, as the guidance was issued to reduce diversity in practice on presentation of unrecognized tax benefits.

Note 2 - Stock-Based Compensation

Our stock-based compensation expense is associated with stock options, restricted stock units, or RSUs, and performance stock units, or PSUs, and is measured based on the estimated fair value of equity awards at the grant date.

We estimate the fair value of employee stock options on the date of grant using a binomial model and recognize the expense using a straight-line attribution method over the requisite employee service period. We use the closing trading price of our common stock on the date of grant, minus a dividend yield discount, as the fair value of awards of RSUs

and PSUs. The compensation expense for the RSUs is recognized using a straight-line attribution method over the requisite employee service period while compensation expense for PSUs is recognized using an accelerated amortization model. We estimate the fair value of shares to be issued under our employee stock purchase plan using the Black-Scholes model at the commencement of an offering period in March and September of each year. Stock-based compensation for our employee stock purchase plan is expensed using an accelerated amortization model.

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

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

	Three Months Ended	
	April 27, 2014	April 28, 2013
	(In thousands)	
Cost of revenue	\$2,919	\$2,653
Research and development	20,494	21,935
Sales, general and administrative	12,108	8,809
Total	\$35,521	\$33,397

During the three months ended April 27, 2014, we granted 7,800 stock options, with a total grant-date fair value of \$35,880 and a weighted average grant-date fair value of \$4.60 per option. During the three months ended April 27, 2014, we granted 3.3 million RSUs and PSUs, with a total grant-date fair value of \$55.7 million and a weighted average grant-date fair value of \$17.13 per share. The PSUs granted during the three months ended April 27, 2014, were granted to our CEO and senior management as approved by our Compensation Committee.

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

Of the total grant-date fair value, we estimated that the stock-based compensation expense related to the equity awards that were not expected to vest was \$10.0 million and \$11.8 million for the three months ended April 27, 2014 and April 28, 2013, respectively. As of April 27, 2014 and January 26, 2014, the aggregate amount of unearned stock-based compensation expense related to our equity awards was \$259.6 million and \$241.3 million, respectively, adjusted for estimated forfeitures. As of April 27, 2014 and January 26, 2014, we expected to recognize the unearned stock-based compensation expense related to stock options over an estimated weighted average amortization period of 2.3 years and 2.5 years, respectively. As of April 27, 2014 and January 26, 2014, we expected to recognize the unearned stock-based compensation expense related to RSUs and PSUs over an estimated weighted average amortization period of 2.8 years and 2.7 years, respectively.

Valuation Assumptions

We determine the fair value of stock option awards on the date of grant using an option-pricing model that is affected by our stock price as well as assumptions regarding a number of highly complex and subjective variables. These variables include, weighted average expected term, risk-free interest rate, expected stock price volatility, dividend yield, actual and projected employee stock option exercise behaviors, vesting schedules and death and disability probabilities. We segregate options into groups of employees with relatively homogeneous exercise behavior in order to calculate the best estimate of fair value using the binomial valuation model.

The expected life of employee stock options is a derived output of our valuation model and is impacted by the underlying assumptions of our company. The risk-free interest rate assumption is based upon observed interest rates on Treasury bills appropriate for the term of our employee stock options. Our management has determined that the use of implied volatility is expected to be more reflective of market conditions and, therefore, can reasonably be expected to be a better indicator of our expected volatility than historical volatility. Dividend yield is based on history and expectation of dividend payouts. Our RSU and PSU awards are not eligible for cash dividends prior to vesting; therefore, the fair value of RSUs and PSUs is discounted by the dividend yield.

We use a dividend yield at grant date based on the per share dividends declared during the most recent quarter. Additionally, for all employee equity awards, we estimate forfeitures annually and revise the estimates of forfeiture in subsequent periods if actual forfeitures differ from those estimates. Forfeitures are estimated based on historical

experience.

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

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

	Three Months Ended		
	April 27, 2014	April 28, 2013	
Stock Options	(Using a binomial model)		
Expected life (in years)	3.2	3.2 - 3.3	
Risk-free interest rate	2.8	% 1.8% - 2.1%	
Volatility	31	% 32% - 37%	
Dividend yield	1.9	% 2.3% - 2.4%	
	Three Months Ended		
	April 27, 2014	April 28, 2013	
Employee Stock Purchase Plan	(Using a Black-Scholes model)		
Expected life (in years)	0.5 - 2.0	0.5 - 2.0	
Risk-free interest rate	0.1% - 0.3%	0.1% - 0.3%	
Volatility	31	% 37	%
Dividend yield	1.9	% 2.4	%
Equity Award Activity			

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

	Options Outstanding (In thousands)	Weighted Average Exercise Price (Per share)
Stock Options		
Balances, January 26, 2014	32,504	\$14.22
Granted	8	\$17.20
Exercised	(4,801	) \$13.14
Cancelled	(486	) \$20.31
Balances, April 27, 2014	27,225	\$14.30
	RSUs and PSUs Outstanding (In thousands)	Weighted Average Grant-Date Fair Value (Per share)
RSUs and PSUs		
Balances, January 26, 2014	18,852	\$13.82
Granted (1)	3,254	\$17.13
Vested	(3,303	) \$13.31
Cancelled	(367	) \$13.24
Balances, April 27, 2014	18,436	\$14.51

(1) Includes the total number of PSUs issuable if the maximum corporate financial performance target level for fiscal year 2015 is achieved. Depending on the actual level of achievement of the corporate performance goal at the end of fiscal year 2015, the range of PSUs issued could range from 0 to 2.5 million shares.

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

Note 3 – Net Income Per Share

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

	Three Months Ended	
	April 27, 2014	April 28, 2013
	(In thousands, except per share data)	
Numerator:		
Net income	\$ 136,516	\$ 77,891
Denominator:		
Denominator for basic net income per share, weighted average shares	559,092	616,872
Effect of dilutive securities:		
Equity awards outstanding	11,330	2,430
Denominator for diluted net income per share, weighted average shares	570,422	619,302
Net income per share:		
Basic net income per share	\$0.24	\$0.13
Diluted net income per share	\$0.24	\$0.13
Potentially dilutive securities excluded from diluted net income per share because their effect would have been anti-dilutive	8,338	26,112

The denominator for diluted net income per share for the three months ended April 27, 2014 did not include any effect from the 1.00% Convertible Senior Notes due 2018, or the Notes. The calculation of the dilution impact is based on the treasury stock method in accordance with Accounting Standards Codification, or ASC 260, Earnings per Share. Commencing after the fiscal quarter ended on April 27, 2014, the Notes will not impact the denominator for diluted net income per share unless the average price of our common stock, as calculated under the terms of the Notes, exceeds the conversion price of \$20.16 per share. Likewise, the denominator for diluted net income per share will not include any effect from the warrants that were issued simultaneously with the Notes unless the average price of our common stock, as calculated under the terms of the warrants, exceeds \$27.14 per share.

The denominator for diluted net income per share for the three months ended April 27, 2014 also did not include any effect from the note hedges that were issued simultaneously with the Notes. In future periods, the denominator for diluted net income per share will exclude any effect of the note hedges, unless in the event an actual conversion of any or all of the Notes occurs, the shares that would be delivered to us under the note hedges are designed to neutralize the dilutive effect of the shares that the Company would issue under the Notes. Please refer to Note 11 of these Notes to Condensed Consolidated Financial Statements for additional discussion regarding the Notes.

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

Note 4 – Income Taxes

We recognized income tax expense of \$26.8 million and \$10.2 million for the three months ended April 27, 2014 and April 28, 2013, respectively. Income tax expense as a percentage of income before taxes, or our effective tax rate, was 16.4% and 11.6% for the three months ended April 27, 2014 and April 28, 2013, respectively.

The increase in our effective tax rate in fiscal year 2015 as compared to the same period in the prior fiscal year was primarily related to the expiration of the U.S. federal research tax credit on December 31, 2013 which resulted in no tax benefit in the three months ended April 27, 2014.

Our effective tax rate on income before tax for the first three months of fiscal year 2015 of 16.4% was lower than the United States federal statutory rate of 35% due primarily to income earned in jurisdictions where the tax rate is lower than the United States federal statutory tax rate. Further, our annual projected effective tax rate as of the first three months of fiscal year 2015 of 20% differs from our actual effective tax rate for the first three months of fiscal year 2015 of 16.4% due to favorable discrete events that occurred in the first three months of fiscal year 2015 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 three months of fiscal year 2014 of 11.6% was lower than the United States federal statutory rate of 35% due primarily to income earned in jurisdictions where the tax rate is lower than the United States federal statutory tax and the benefit of the U.S. federal research tax credit.

For the three months ended April 27, 2014, there have been no material changes to our tax years that remain subject to examination by major tax jurisdictions. Additionally, there have been no other material changes to our unrecognized tax benefits and any related interest or penalties from our fiscal year ended January 26, 2014, other than the recognition of tax benefits related to the expiration of statute of limitation in certain non-U.S. jurisdictions in the three months ended April 27, 2014.

While we believe that we have adequately provided for all uncertain tax positions, or tax positions where it is believed not more-likely-than-not that the position will be sustained upon examination, amounts asserted by tax authorities could be greater or less than our accrued position. Accordingly, our provisions on federal, state and foreign tax related matters to be recorded in the future may change as revised estimates are made or the underlying matters are settled or otherwise resolved with the respective tax authorities. As of April 27, 2014, we do not believe that our estimates, as otherwise provided for, on such tax positions will significantly increase or decrease within the next twelve months.

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

Note 5 - Marketable Securities

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

We performed an impairment review of our investment portfolio as of April 27, 2014. Based on our quarterly impairment review and having considered the guidance in the relevant accounting literature, we concluded that our investments were appropriately valued and that no other than temporary impairment charges were necessary on our portfolio as of April 27, 2014.

The following is a summary of cash equivalents and marketable securities at April 27, 2014 and January 26, 2014:

	April 27, 2014			
	Amortized Cost (In thousands)	Unrealized Gain	Unrealized Loss	Estimated Fair Value
Corporate debt securities	\$2,065,847	\$2,671	\$(692)	) \$2,067,826
Debt securities of United States government agencies	732,145	684	(98)	) 732,731
Debt securities issued by United States Treasury	584,036	884	(40)	) 584,880
Asset-backed securities	357,216	239	(124)	) 357,331
Mortgage-backed securities issued by United States government-sponsored enterprises	199,362	3,874	(795)	) 202,441
Money market funds	103,396	—	—	103,396
Total	\$4,042,002	\$8,352	\$(1,749)	) \$4,048,605
Classified as:				
Cash equivalents				\$209,953
Marketable securities				3,838,652
Total				\$4,048,605
	January 26, 2014			
	Amortized Cost (In thousands)	Unrealized Gain	Unrealized Loss	Estimated Fair Value
Corporate debt securities	\$1,827,788	\$1,857	\$(1,065)	) \$1,828,580
Debt securities of United States government agencies	1,012,740	848	(261)	) 1,013,327
Debt securities issued by United States Treasury	495,889	621	(57)	) 496,453
Money market funds	307,865	—	—	307,865
Asset-backed securities	258,017	15	(315)	) 257,717
Mortgage-backed securities issued by United States government-sponsored enterprises	185,594	3,837	(725)	) 188,706
Total	\$4,087,893	\$7,178	\$(2,423)) \$4,092,648
Classified as:				
Cash equivalents				\$572,425

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Marketable securities	3,520,223
Total	\$4,092,648

The following table provides the breakdown of the investments with unrealized losses at April 27, 2014:

	Less than 12 months		12 months or greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
	(In thousands)					
Corporate debt securities	\$807,941	\$(41)	\$1,259,885	\$(651)	\$2,067,826	\$(692)
Debt securities of United States government agencies	408,621	(9)	324,110	(89)	732,731	(98)
Debt securities issued by United States Treasury	64,259	—	520,621	(40)	584,880	(40)
Asset-backed securities	153,635	(30)	203,696	(94)	357,331	(124)
Mortgage-backed securities issued by United States government-sponsored enterprises	—	—	202,441	(795)	202,441	(795)
Total	\$1,434,456	\$(80)	\$2,510,753	\$(1,669)	\$3,945,209	\$(1,749)

The gross unrealized losses related to fixed income securities and were due to changes in interest rates. We have determined that the gross unrealized losses on investment securities at April 27, 2014 are temporary in nature. Currently, we have the intent and ability to hold our investments with impairment indicators until maturity.

The amortized cost and estimated fair value of cash equivalents and marketable securities, which are primarily debt instruments, are classified as available-for-sale at April 27, 2014 and January 26, 2014 and are shown below by contractual maturity.

	April 27, 2014		January 26, 2014	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
	(In thousands)			
Less than 1 year	\$1,536,890	\$1,537,853	\$1,883,132	\$1,883,753
Due in 1 - 5 years	2,379,798	2,383,465	2,114,289	2,117,387
Mortgage-backed securities issued by government-sponsored enterprises not due at a single maturity date	125,314	127,287	90,472	91,508
Total	\$4,042,002	\$4,048,605	\$4,087,893	\$4,092,648

Net realized gains for the three months ended April 27, 2014 and April 28, 2013 were not significant.

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

Note 6 – Fair Value of Cash Equivalents and Marketable Securities

We measure our cash equivalents and marketable securities at fair value. The fair values of our financial assets and liabilities are determined using quoted market prices of identical assets or quoted market prices of similar assets from active markets. Our Level 1 assets consist of our money market funds. We classify securities within Level 1 assets when the fair value is obtained from real time quotes for transactions in active exchange markets involving identical assets. Our available-for-sale securities are classified as having Level 2 inputs. Our Level 2 assets are valued utilizing a market approach where the market prices of similar assets are provided by a variety of independent industry standard data providers to our investment custodian. There were no significant transfers between Levels 1 and 2 assets for the three months ended April 27, 2014.

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

	April 27, 2014 (In thousands)	Fair Value Measurement as of April 27, 2014 Using	
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
Corporate debt securities (1)	\$2,067,826	\$—	\$2,067,826
Debt securities issued by United States government agencies (2)	732,731	—	732,731
Debt securities issued by United States Treasury (2)	584,880	—	584,880
Asset-backed securities (2)	357,331	—	357,331
Mortgage-backed securities issued by government-sponsored enterprises (2)	202,441	—	202,441
Money market funds (3)	103,396	103,396	—
Total cash equivalents and marketable securities	\$4,048,605	\$103,396	\$3,945,209

(1) Includes \$106.6 million in cash equivalents and \$1.96 billion in marketable securities on the Condensed Consolidated Balance Sheet.

(2) Included in marketable securities on the Condensed Consolidated Balance Sheet.

(3) Included in cash equivalents on the Condensed Consolidated Balance Sheet.

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

Note 7 - 3dfx

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

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

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

The 3dfx asset purchase price of \$95.0 million and \$4.2 million of direct transaction costs were allocated based on fair values presented below. The final allocation of the purchase price of the 3dfx assets is contingent upon the outcome of all of the 3dfx litigation. Please refer to Note 12 of these Notes to Condensed Consolidated Financial Statements for further information regarding this litigation.

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

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

Note 8 - Intangible Assets

The components of our amortizable intangible assets are as follows:

	April 27, 2014			January 26, 2014		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
	(In thousands)					
Acquisition-related intangible assets	\$ 189,239	\$(119,094)	) \$70,145	\$ 189,239	\$(114,104)	) \$75,135
Patents and licensed technology	446,853	(239,468)	) 207,385	446,196	(225,319)	) 220,877
Total intangible assets	\$ 636,092	\$(358,562)	) \$277,530	\$ 635,435	\$(339,423)	) \$296,012

Amortization expense associated with intangible assets for the three months ended April 27, 2014 and April 28, 2013 was \$19.1 million and \$17.4 million, respectively. Amortization expense increased compared to the prior year primarily due to the addition of licensed technology, the purchase of certain assets of a business, and the addition of acquired in-process research and development technology that was determined to be complete. Future amortization expense related to the net carrying amount of intangible assets at April 27, 2014 is estimated to be \$57.6 million for the remainder of fiscal year 2015, \$71.4 million in fiscal year 2016, \$63.4 million in fiscal year 2017, \$48.5 million in fiscal year 2018, \$20.0 million in fiscal year 2019 and a total of \$16.6 million in fiscal year 2020 and fiscal years subsequent to fiscal year 2020.

Note 9 - Balance Sheet Components

Certain balance sheet components are as follows:

	April 27, 2014	January 26, 2014
	(In thousands)	
Inventories:		
Raw materials	\$143,773	\$126,896
Work in-process	83,767	94,844
Finished goods	165,740	166,025
Total inventories	\$393,280	\$387,765

At April 27, 2014, we had outstanding inventory purchase obligations totaling \$414.2 million.

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

	April 27, 2014	January 26, 2014
Accrued Liabilities and Other:	(In thousands)	
Deferred revenue, short-term	\$265,668	\$265,616
Accrued customer programs (1)	139,139	157,840
Accrued payroll and related expenses	86,544	109,721
Accrued legal settlement (2)	30,600	30,600
Professional service fees	12,647	13,572
Customer advances	10,043	9,297
Warranty accrual (3)	8,250	7,571
Office lease related liabilities	7,756	3,139
Coupon interest on Notes	6,250	2,500
Taxes payable, short-term	4,497	2,378
Other	17,543	18,871
Total accrued liabilities and other	\$588,937	\$621,105

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

(2) Please refer to Note 12 of these Notes to Condensed Consolidated Financial Statements for discussion regarding the 3dfx litigation.

(3) Please refer to Note 10 of these Notes to Condensed Consolidated Financial Statements for discussion regarding the warranty accrual.

	April 27, 2014	January 26, 2014
Other Long-Term Liabilities:	(In thousands)	
Deferred income tax liability	\$175,236	\$157,953
Income taxes payable, long-term	116,881	119,977
Deferred revenue, long-term (1)	106,169	172,199
Asset retirement obligation	7,365	11,056
Other long-term liabilities	14,123	13,940
Total other long-term liabilities	\$419,774	\$475,125

(1) Represents annual consideration received in advance of our performance obligation under our patent cross licensing agreement with Intel Corporation entered into in January 2011. The decrease in deferred revenue, long-term, is a result of revenue recognized during the three months ended April 27, 2014.

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

Note 10 - Guarantees

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

Accrual for Product Warranty Liabilities

We record a reduction to revenue for estimated product returns at the time revenue is recognized primarily based on historical return rates. Cost of revenue includes the estimated cost of product warranties. Under limited circumstances, we may offer an extended limited warranty to customers for certain products. Additionally, we accrue for known warranty and indemnification issues if a loss is probable and can be reasonably estimated. The estimated product warranty liabilities for the three months ended April 27, 2014 and April 28, 2013 were as follows:

	Three Months Ended	
	April 27, 2014	April 28, 2013
	(In thousands)	
Balance at beginning of period	\$7,571	\$14,874
Additions	2,034	1,418
Deductions	(1,355	) (1,459
Balance at end of period	\$8,250	\$14,833

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

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

Note 11 - Long-Term Debt

1.00 % Convertible Senior Notes Due 2018

On December 2, 2013, we issued \$1.5 billion of 1.00% convertible senior notes due 2018, or the Notes. The Notes are unsecured, unsubordinated obligations of the Company, which pay interest in cash semi-annually at a rate of 1.00% per annum. The Notes will mature on December 1, 2018 unless earlier repurchased or converted in accordance with their terms prior to such date. The Notes may be converted, under the conditions specified below, based on an initial conversion rate of 49.60 shares of common stock per \$1,000 principal amount of Notes (equivalent to an initial conversion price of \$20.16 per share of common stock), subject to adjustment as described in the indenture governing the Notes.

Holders may convert their notes at their option at any time prior to August 1, 2018 only under the following circumstances: (1) during any fiscal quarter commencing after the fiscal quarter ended on April 27, 2014 (and only during such fiscal quarter), if the last reported sale price of the common stock for at least 20 trading days (whether or not consecutive) during a period of 30 consecutive trading days ending on the last trading day of the immediately preceding fiscal quarter is greater than or equal to 130% of the conversion price on each applicable trading day; (2) during the five business day period after any five consecutive trading day period (the measurement period) in which the trading price per \$1,000 principal amount of notes for each trading day of the measurement period was less than 98% of the product of the last reported sale price of our common stock and the conversion rate on each such trading day; or (3) upon the occurrence of specified corporate events. On or after August 1, 2018 to the close of business on the second scheduled trading day immediately preceding the maturity date, holders may convert all or any portion of their notes regardless of the foregoing conditions. Upon conversion, we will pay cash up to the aggregate principal amount of the notes to be converted and pay or deliver, as the case may be, cash, shares of our common stock or a combination of cash and shares of our common stock, at our election, in respect of the remainder, if any, of our conversion obligation in excess of the aggregate principal amount of the notes being converted.

As of April 27, 2014, none of the conditions allowing holders of the Notes to convert had been met. The determination of whether or not the Notes are convertible must be performed quarterly. If the Notes become convertible at the option of the holder, the difference between the principal amount and the carrying value of the Notes would be reflected as convertible debt in the mezzanine equity section on our Condensed Consolidated Balance Sheets.

In accordance with ASC 470-20 Debt with Conversion and Other Options, all cash-settled convertible debt should be separated into debt and equity components at issuance and be assigned a fair value. The value assigned to the debt component is the estimated fair value, as of the issuance date, of a similar debt without the conversion feature. The difference between the net cash proceeds and this estimated fair value, represents the value assigned to the equity component and is recorded as a debt discount. The debt discount is amortized using the effective interest method from the origination date through its stated contractual maturity date.

The initial debt component of the Notes was valued at \$1,351.8 million based on the contractual cash flows discounted at an appropriate market rate for a non-convertible debt at the date of issuance, which was determined to be 3.15%. The carrying value of the permanent equity component reported in additional paid-in-capital was valued at \$125.7 million and recorded as a debt discount. This amount, together with the \$22.5 million purchaser's discount to the par value of the Notes represents the total unamortized debt discount of \$148.2 million we recorded at the time of issuance of the Notes. The aggregate debt discount is amortized as interest expense over the contractual term of the Notes using the effective interest method using an interest rate of 3.15%.

The following table presents the carrying amounts of the liability and equity components:

	April 27, 2014 (In thousands)	January 26, 2014
Amount of the equity component	\$125,725	\$125,725

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1.00% convertible senior notes due 2018	\$1,500,000	\$1,500,000
Unamortized debt discount (1)	(136,724)	(143,625)
Net carrying amount	\$1,363,276	\$1,356,375

(1) As of April 27, 2014, the remaining period over which the unamortized debt discount will be amortized is 4.6 years.

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

The following table presents the interest expense for the contractual interest and the accretion of debt discount:

	Three Months Ended April 27, 2014 (In thousands)
Contractual coupon interest expense	\$3,750
Amortization of debt discount	6,901
Amortization of debt issuance costs	49
Total interest expense related to Notes	\$10,700

As of April 27, 2014, the fair value of the Notes was \$1,692.3 million. The Notes are classified within Level 2 as they are not actively traded in markets.

Note Hedges and Warrants

The net proceeds from the Notes were \$1,477.5 million after payment of the initial purchaser's discount.

Concurrently with the offering of the Notes, we entered into a convertible note hedge transaction, or the Note Hedges, with a strike price equal to the initial conversion price of the Notes, or \$20.16 per share. The Note Hedges allow us to receive shares of our common stock and/or cash related to the excess conversion value that we would pay to the holders of the Notes upon conversion. We paid \$167.1 million for the Note Hedges.

In addition, concurrent with the offering of the Notes and the purchase of the Note Hedges, we entered into a separate warrant transaction, or the Warrants, with a strike price to the holders of the Warrants of \$27.14 per share. The Warrants are net share settled and cover, subject to customary anti-dilution adjustments, 74.4 million shares of our common stock. We received \$59.1 million for the Warrants transaction.

The \$108.0 million net cost of the Note Hedges offset by the proceeds from the Warrants is included as a net reduction to additional paid-in capital in the stockholders' equity section of our condensed consolidated balance sheets, in accordance with the guidance in ASC 815-40 Derivatives and Hedging-Contracts in Entity's Own Equity.

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

Note 12 - Commitments and Contingencies

3dfx

On December 15, 2000, NVIDIA and one of our indirect subsidiaries entered into an Asset Purchase Agreement, or APA, to purchase certain graphics chip assets from 3dfx. The transaction closed on April 18, 2001. In October 2002, 3dfx filed for bankruptcy.

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

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

In March 2007, a trial was held regarding certain valuation issues in the Trustee's constructive fraudulent transfer claims against NVIDIA. On April 30, 2008, the Bankruptcy Court issued its Memorandum Decision After Trial, in which it provided a detailed summary of the trial proceedings and the parties' contentions and evidence and concluded that "the creditors of 3dfx were not injured by the Transaction." This decision did not entirely dispose of the Trustee's action, however, as the Trustee's claims for successor liability and intentional fraudulent conveyance were still pending. On June 19, 2008, NVIDIA filed a motion for summary judgment to convert the Memorandum Decision After Trial to a final judgment. That motion was granted in its entirety and judgment was entered in NVIDIA's favor on September 11, 2008. The Trustee filed a Notice of Appeal from that judgment on September 22, 2008, and on September 25, 2008, NVIDIA exercised its election to have the appeal heard by the United States District Court. On December 20, 2010, the District Court issued an Order affirming the Bankruptcy Court's entry of summary judgment in NVIDIA's favor, and on January 19, 2011, the Trustee filed a Notice of Appeal to the United States Court of Appeals for the Ninth Circuit. The appeal is currently pending.

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

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

In September 2008, three putative securities class actions were filed in the United States District Court for the Northern District of California arising out of our announcements on July 2, 2008, that we would take a charge against cost of revenue to cover anticipated costs and expenses arising from a weak die/package material set in certain versions of our previous generation MCP and GPU products and that we were revising financial guidance for our second quarter of fiscal year 2009. The actions purport to be brought on behalf of purchasers of NVIDIA stock and assert claims for violations of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934.

On January 22, 2010, Plaintiffs filed a Consolidated Amended Class Action Complaint, asserting claims for violations of Section 10(b), Rule 10b-5, and Section 20(a) of the Securities Exchange Act and seeking unspecified compensatory damages. We moved to dismiss the consolidated complaint and on October 19, 2010, Judge Seeborg granted our motion with leave to amend. On December 2, 2010, Plaintiffs filed a Second Consolidated Amended Complaint. We again moved to dismiss and on October 12, 2011, Judge Seeborg again granted our motion to dismiss, this time denying Plaintiffs leave to amend. On November 8, 2011, Plaintiffs filed a Notice of Appeal to the Ninth Circuit. Oral argument was held on January 14, 2014 and the appeal is currently under submission.

Accounting for Loss Contingencies

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

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

Note 13 - Stockholders' Equity

Stock Repurchase Program

Beginning August 2004, our Board of Directors authorized us, subject to certain specifications, to repurchase shares of our common stock. Most recently, in November 2013, the Board extended the previously authorized repurchase program through January 2016 and authorized an additional \$1.00 billion for an aggregate of \$3.70 billion under the repurchase program. Through April 27, 2014, we have repurchased an aggregate of 181.8 million shares under our stock repurchase program for a total cost of \$2.95 billion. As of April 27, 2014, we are authorized, subject to certain specifications, to repurchase shares of our common stock up to \$0.75 billion through January 2016.

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

In November 2013, we announced the intention to return \$1.00 billion to shareholders in fiscal year 2015 in the form of share repurchases and cash dividends. During February 2014, we entered into an accelerated share repurchase agreement, or ASR, with an investment bank, under which we prepaid \$500.0 million to purchase shares of our common stock and received 20.6 million shares on February 20, 2014. Upon final settlement of the ASR in the second quarter of fiscal year 2015, we may either (1) receive additional shares of our common stock, or (2) be required to deliver shares of our common stock or elect to make a cash payment to the investment bank, based on the terms and conditions under the ASR. The shares we receive result in a reduction, on the delivery date, of the outstanding shares used to calculate the weighted-average common shares outstanding for basic and diluted net income per share.

We accounted for the ASR program as two separate transactions: (i) the 20.6 million shares of common stock initially delivered to us, were accounted for as treasury stock transaction and (ii) the unsettled contract was determined to be a forward contract indexed to our own common stock. The initial delivery of 20.6 million shares resulted in an immediate reduction, on the delivery date, of the outstanding shares used to calculate the weighted-average common shares outstanding for basic and diluted net income per share. We have determined that the forward contract, indexed to our common stock, met all of the applicable criteria for equity classification.

Therefore, we recorded \$368.6 million as treasury stock and recorded \$131.4 million, the implied value of the forward contract, in additional paid-in-capital, or APIC, in our Condensed Consolidated Balance Sheets as of April 27, 2014. As the remainder of the shares are delivered to us, anticipated to be in the second quarter of fiscal year 2015, the forward contract will be reclassified from APIC to treasury stock.

Dividends

During the first quarter of fiscal year 2015, we paid \$46.7 million in dividends to our common stockholders. This dividend was equivalent to \$0.085 per share, or \$0.34 per share on an annual basis.

Convertible Preferred Stock

There are no shares of preferred stock outstanding.

Common Stock

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

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

Note 14 - Segment Information

Our Chief Executive Officer, who is considered to be our chief operating decision maker, or CODM, reviews financial information presented on an operating segment basis for purposes of making operating decisions and assessing financial performance. Our operating segments are equivalent to our reportable segments. We report our business in two primary reporting segments - the GPU business and the Tegra Processor business.

Our GPU business leverages our GPU technology across multiple end markets. It comprises four primary product lines: GeForce for consumer desktop and notebook PCs; Quadro for professional workstations; Tesla for high-performance computing; and NVIDIA GRID to provide the power of NVIDIA graphics through the cloud. It also includes other related products, licenses and revenue supporting the GPU business, such as memory products.

Our Tegra Processor business comprises primarily product lines based on our Tegra SOC and modem processor technologies, including Tegra for tablets, smartphones and gaming devices; Icera baseband processors and RF transceivers; automotive computers, including infotainment and navigation systems; and gaming devices, such as SHIELD. It also includes embedded products and license and other revenue associated with game consoles.

During the fourth quarter of fiscal year 2014, our CODM completed a refinement of the methodology utilized to assign expenses to the GPU and Tegra Processor businesses to align to the Company's product architecture and roadmap. With the announcement of our Tegra K1 processor, we now have a single unifying architecture for our GPU and Tegra Processors. This architecture unification prompted a methodology change that leverages our visual computing expertise by charging the operating expenses of certain core engineering functions to the GPU business, while charging the Tegra Processor business for the incremental cost of the teams working directly for that business. In instances where the operating expenses of certain functions benefit both reporting segments, our CODM assigns 100% of those expenses to the reporting segment that benefits the most. The revenue and cost of revenue of the reporting segments was not affected, and comparative periods presented below reflect the impact of this change. The "All Other" category presented below represents the revenue and expenses that our CODM does not assign to either the GPU business or the Tegra Processor business for purposes of making operating decisions or assessing financial performance. The revenue includes primarily patent licensing revenue and the expenses include corporate infrastructure and support costs, stock-based compensation costs, amortization of acquisition-related intangible assets, other acquisition-related costs, and other non-recurring charges and benefits that our CODM deems to be enterprise in nature.

Our CODM does not review any information regarding total assets on a reporting segment basis. We do not have intersegment revenue. The accounting policies for segment reporting are the same as for NVIDIA as a whole.

	GPU	Tegra Processor	All Other	Consolidated
	(In thousands)			
Three Months Ended April 27, 2014				
Revenue	\$897,363	\$139,424	\$66,000	\$1,102,787
Depreciation and amortization expense	\$29,524	\$14,168	\$11,391	\$55,083
Operating income (loss)	\$235,197	\$(61,440)	\$(22,398)	\$151,359
Three Months Ended April 28, 2013				
Revenue	\$785,612	\$103,127	\$66,000	\$954,739
Depreciation and amortization expense	\$38,848	\$10,671	\$10,225	\$59,744
Operating income (loss)	\$158,526	\$(54,990)	\$(20,755)	\$82,781

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

	Three Months Ended	
	April 27, 2014	April 28, 2013
	(In thousands)	
Reconciling items included in "All Other" category :		
Revenue not allocated to reporting segments	\$66,000	\$66,000
Unallocated corporate operating expenses and other expenses	(43,436	) (44,497
Stock-based compensation	(35,521	) (33,397
Amortization of acquisition-related intangibles	(9,441	) (8,861
Total	\$(22,398	) \$(20,755

Revenue by geographic region is allocated to individual countries based on the location to which the products are initially billed even if our customers' revenue is attributable to end customers that are located in a different location. The following tables summarize information pertaining to our revenue from customers based on invoicing address in different geographic regions:

	Three Months Ended	
	April 27, 2014	April 28, 2013
	(In thousands)	
Revenue:		
Taiwan	\$372,859	\$289,881
China	223,462	175,044
United States	172,935	185,978
Other Asia Pacific	154,850	167,257
Other Americas	91,763	65,007
Europe	86,918	71,572
Total revenue	\$1,102,787	\$954,739

For the three months ended April 27, 2014, revenue from significant customers, those representing 10% or more of total revenue, was 10% of our total revenue from one customer whose revenue was attributable to both the GPU and Tegra Processor businesses. For the three months ended April 28, 2013, revenue from significant customers was 21% of our total revenue from two customers and was attributable primarily to the GPU business for the first customer and to both the GPU and Tegra Processor businesses for the second customer.

Accounts receivable from significant customers, those representing 10% or more of total accounts receivable, was 33% of our accounts receivable balance from two customers at April 27, 2014 and 23% of our accounts receivable balance from one customer at January 26, 2014.

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

Forward-Looking Statements

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

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

NVIDIA, the NVIDIA logo, GeForce, NVIDIA GRID, GTX, ICERA, Jetson, Kepler, NVIDIA Maxwell, NVLink, Pascal, Quadro, SHIELD, Tegra, and Tesla are trademarks and/or registered trademarks of NVIDIA Corporation in the United States and other countries. Other company and product names may be trademarks of the respective companies with which they are associated.

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with "Item 6. Selected Financial Data" of our Annual Report on Form 10-K for the fiscal year ended January 26, 2014 and "Item 1A. Risk Factors" of this Quarterly Report on Form 10-Q and our Condensed Consolidated Financial Statements and related Notes thereto, as well as other cautionary statements and risks described elsewhere in this Quarterly Report on Form 10-Q, before deciding to purchase, hold or sell shares of our common stock.

Overview

Our Company

NVIDIA is a visual computing company. In a world increasingly filled with visual displays, our graphics technologies let our customers interact with the world of digital ideas, information and entertainment with an efficiency that no other communication medium can match.

Our strategy is to be the world leader in visual computing. We target applications in each of the major computing platforms - PC, cloud, mobile - where we can create value. Our target markets are gaming, design and visualization, high performance computing, or HPC, and data center, and automotive and smart devices. We deploy business models we believe are best suited for each application, whether IP, chips, systems, or NVIDIA-branded devices and services.

We have long been known for bringing video games to life with our PC graphics chips. With our invention of the GPU, we introduced the world to the power of programmable shading, which defines modern computer graphics. Today, we reach well beyond PC graphics and games. Our energy-efficient processors are at the heart of products ranging from smartphones to automobiles to supercomputers. We believe in leveraging our processors and visual computing expertise to create differentiated products.

PC gamers choose our GPUs to enjoy immersive fantasy worlds. Our Tegra system-on-a-chip, or SOC, processors power smartphones, tablets and automobile infotainment systems. Professional designers use our GPUs to create visual effects in movies and design everything from audio headsets to commercial aircraft. Supercomputers take advantage of the massively parallel processing capabilities of our GPUs to accelerate a wide range of important applications, from simulations of viruses to weather forecasting and global oil exploration.

NVIDIA's research and development in visual computing has yielded approximately 7,000 patent assets, including inventions essential to modern computing.

Our businesses are based on two technologies with a consistent underlying graphics architecture: the GPU and the Tegra processor.

GPUs, each with billions of transistors, are the engines of visual computing and among the world's most complex processors. We have GPU product brands aimed at specific users and applications: GeForce for gamers; Quadro for designers; Tesla for researchers; and GRID for cloud-based graphics.

In gaming, GPUs enhance the gaming experience on PCs by improving the visual quality of graphics, increasing the frame rate for smoother gameplay and improving realism by replicating the behavior of light and physical objects.

For designers, GPUs improve productivity and introduce new capabilities. For example, an architect designing a new building in a CAD package can interact with the model in real time, the model can be more detailed, and photo realistic renderings can be generated for the client.

Researchers can use GPUs to run their simulations faster while consuming less power, increasing the accuracy of weather forecasts, or pricing financial derivatives more quickly.

GRID uses GPUs to deliver graphics performance remotely, from the cloud. Uses include gaming, professional applications provided as a service (SaaS) and improving Citrix and VMware installations.

The Tegra processor is a SOC integrating an entire computer on a single chip. Tegra processors incorporate GPUs and multi-core CPUs together with audio, video and input/output capabilities. They can also be integrated with baseband processors to add voice and data communication. Our Tegra SOC conserves power while delivering state-of-the-art graphics and multimedia processing.

Tegra runs devices like smartphones, tablets and PCs; it can also be embedded into smart devices, such as televisions, monitors, set-top boxes, gaming devices and cars. SHIELD, our Android gaming device based on Tegra, contains proprietary NVIDIA-developed software and system technologies and leverages our deep partnerships with game developers.

Headquartered in Santa Clara, California, we were incorporated in California in April 1993 and reincorporated in Delaware in April 1998.

Recent Developments, Future Objectives and Challenges

GPU Business

During the first quarter of fiscal year 2015, we released our new GeForce GTX 750 and GeForce GTX 800M series products which include our NVIDIA Maxwell-based products, and disclosed the first details of our Pascal GPU architecture, which will succeed NVIDIA Maxwell. Pascal is expected to feature 3D memory and NVLink interconnect technology. NVLink is planned to be incorporated in future POWER8 CPUs from IBM. We also announced that NVIDIA GRID™ technology will be available on the VMware Horizon DaaS Platform to deliver 3D graphics on virtualized desktops and applications delivered through the cloud. In addition, we joined IBM, Google, and others to launch the OpenPOWER Foundation, an initiative to bring IBM's POWER CPU to mainstream servers.

Tegra Processor Business

During the first quarter of fiscal year 2015, we launched Jetson™ TK1, a development platform aimed at automotive, robotics, defense and embedded applications.

Capital Return to Shareholders

During the first quarter of fiscal year 2015, as part of our stock repurchase program, we entered into an accelerated share repurchase agreement, or ASR, with an investment bank. Under the terms of the ASR, we prepaid \$500.0 million to purchase shares of our common stock and received 20.6 million shares on February 20, 2014. Upon final settlement of the ASR in the second quarter of fiscal year 2015, we may either (1) receive additional shares of our common stock, or (2) be required to deliver shares of our common stock or elect to make a cash payment to the investment bank, based on the terms and conditions under the ASR. Additionally, we paid \$46.7 million in cash dividends during the first quarter of fiscal year 2015. As such, in the aggregate for the first quarter of fiscal year 2015, we executed a total of \$546.7 million towards our intended capital return of \$1.00 billion to shareholders during fiscal year 2015. Please refer to Note 13 of the Notes to Condensed Consolidated Financial Statements for further disclosure regarding the ASR.

Financial Information by Business Segment and Geographic Data

Our Chief Executive Officer, who is considered to be our chief operating decision maker, or CODM, reviews financial information presented on an operating segment basis for purposes of making operating decisions and assessing financial performance. Our operating segments are equivalent to our reportable segments. We report our business in two primary reporting segments - the GPU business and the Tegra Processor business.

Our GPU business leverages our GPU technology across multiple end markets. It comprises four primary product lines: GeForce for consumer desktop and notebook PCs; Quadro for professional workstations; Tesla for high-performance computing; and NVIDIA GRID to provide the power of NVIDIA graphics through the cloud. It also includes other related products, licenses and revenue supporting the GPU business, such as memory products.

Our Tegra Processor business comprises primarily product lines based on our Tegra SOC and modem processor technologies, including Tegra for tablets, smartphones and gaming devices; Icera baseband processors and RF transceivers; automotive computers, including infotainment and navigation systems; and gaming devices, such as SHIELD. It also includes embedded products and license and other revenue associated with game consoles.

The "All Other" category presented below represents the revenue and expenses that our CODM does not assign to either the GPU business or the Tegra Processor business for purposes of making operating decisions or assessing financial performance. The revenue includes primarily patent licensing revenue and the expenses include corporate infrastructure and support costs, stock-based compensation costs, amortization of acquisition-related intangible assets, other acquisition-related costs, and other non-recurring charges and benefits that our CODM deems to be enterprise in nature.

Our CODM does not review any information regarding total assets on a reporting segment basis. We do not have intersegment revenue. The accounting policies for segment reporting are the same as for NVIDIA as a whole. Please refer to Note 14 of the Notes to Condensed Consolidated Financial Statements for further disclosure regarding segment information.

Results of Operations

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

	Three Months Ended				
	April 27, 2014	April 28, 2013			
Revenue	100.0		%	100.0	%
Cost of revenue	45.2			45.7	
Gross profit	54.8			54.3	
Operating expenses					
Research and development	30.3			34.3	
Sales, general and administrative	10.8			11.4	
Total operating expenses	41.1			45.7	
Operating income	13.7			8.7	
Interest income	0.5			0.5	
Interest expense	1.0			0.1	
Other income, net	1.6			0.2	
Income before income tax expense	14.8			9.3	
Income tax expense	2.4			1.1	
Net income	12.4		%	8.2	%

Three months ended April 27, 2014 and April 28, 2013

Revenue

	Three Months Ended		\$	%	
	April 27, 2014	April 28, 2013				Change	Change
	(In thousands)				
GPU	\$897.4	\$785.6	\$111.8	14.2	%
Tegra Processor	139.4	103.1	36.3	35.2	%
All Other	66.0	66.0	—	—	%
Total	\$1,102.8	\$954.7	\$148.1	15.5	%

Revenue increased by 16% for the first quarter of fiscal year 2015, compared to the first quarter of fiscal year 2014. A discussion of our revenue results for each of our operating segments is as follows:

GPU Business. GPU business revenue increased by 14% in the first quarter of fiscal year 2015, compared to the first quarter of fiscal year 2014. This increase was due primarily to higher revenue from sales of high-end desktop GPU products, including our first Maxwell-based GPUs, and associated memory sales. Revenue from notebook GPU products decreased as overall notebook unit volumes contracted compared to the prior year; however, high-end notebook GPU unit volumes and revenue grew, reflecting increasing demand for gaming notebooks. Quadro and Tesla revenue both increased in the first quarter of fiscal year 2015 compared to the first quarter of fiscal year 2014. The increase in Quadro revenue was attributable primarily to increases in sales of our Kepler-based Quadro products, while the Tesla revenue increase was due primarily to large deals comprising an increasing percentage of the sales.

Tegra Processor Business. Tegra Processor business revenue increased by 35% in the first quarter of fiscal year 2015, compared to the first quarter of fiscal year 2014. This increase was driven by higher revenue from the sale of Tegra processors for automobiles and embedded products and higher unit shipments of Tegra 4-based products for

smartphones. These increases were partially offset by decreased unit shipments of older generation Tegra 3-based products for tablets and lower license and royalty revenue associated with game consoles.

All Other. We recognized \$66.0 million in revenue from the patent cross licensing arrangement with Intel during the first quarter of fiscal years 2015 and 2014.

Concentration of Revenue

Revenue from sales to customers outside of the United States and Other Americas accounted for 76% and 74% of total revenue for the first quarter of fiscal years 2015 and 2014, respectively. Revenue by geographic region is allocated to individual countries based on the location to which the products are initially billed even if the revenue is attributable to end customers in a different location.

Revenue from significant customers, those representing 10% or more of total revenue, was 10% of our total revenue from one customer for the first quarter of fiscal year 2015 and 21% of our total revenue from two customers for the first quarter of fiscal year 2014.