

NVIDIA CORP
Form 10-Q
May 22, 2018

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 29, 2018

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 (I.R.S. Employer
Incorporation or Organization) Identification No.)

2788 San Tomas Expressway

Santa Clara, California 95051

(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 No

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 No

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company Emerging growth company

(Do not check if a smaller reporting company)

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

The number of shares of common stock, \$0.001 par value, outstanding as of May 18, 2018, was 607 million.

NVIDIA CORPORATION
 FORM 10-Q
 FOR THE QUARTER ENDED April 29, 2018
 TABLE OF CONTENTS

Page

PART I : FINANCIAL INFORMATION

| | | |
|----------------|---|-----------|
| <u>Item 1.</u> | Financial Statements (Unaudited) | |
| | a) Condensed Consolidated Statements of Income for the three months ended April 29, 2018 and April 30, 2017 | <u>3</u> |
| | b) Condensed Consolidated Statements of Comprehensive Income for the three months ended April 29, 2018 and April 30, 2017 | <u>4</u> |
| | c) Condensed Consolidated Balance Sheets as of April 29, 2018 and January 28, 2018 | <u>5</u> |
| | d) Condensed Consolidated Statements of Cash Flows for the three months ended April 29, 2018 and April 30, 2017 | <u>6</u> |
| | e) Notes to Condensed Consolidated Financial Statements | <u>7</u> |
| <u>Item 2.</u> | Management’s Discussion and Analysis of Financial Condition and Results of Operations | <u>20</u> |
| <u>Item 3.</u> | Quantitative and Qualitative Disclosures About Market Risk | <u>27</u> |
| <u>Item 4.</u> | Controls and Procedures | <u>27</u> |

PART II : OTHER INFORMATION

| | | |
|------------------|---|-----------|
| <u>Item 1.</u> | Legal Proceedings | <u>28</u> |
| <u>Item 1A.</u> | Risk Factors | <u>28</u> |
| <u>Item 2.</u> | Unregistered Sales of Equity Securities and Use of Proceeds | <u>28</u> |
| <u>Item 6.</u> | Exhibits | <u>30</u> |
| <u>Signature</u> | | <u>31</u> |

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 products, our planned financial and other announcements and attendance at upcoming investor and industry conferences, and other matters and for complying with our disclosure obligations under Regulation FD:

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

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

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

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

NVIDIA Instagram Page (<https://www.instagram.com/nvidia/>)

NVIDIA Flipboard Page (<https://flipboard.com/@NVIDIACorp>)

In addition, investors and others can view NVIDIA videos on YouTube.

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
(In millions, except per share data)
(Unaudited)

| | Three Months Ended | |
|--|-----------------------|----------------------|
| | April 29, 2018 | April 30, 2017 |
| Revenue | \$3,207 | \$1,937 |
| Cost of revenue | 1,139 | 787 |
| Gross profit | 2,068 | 1,150 |
| Operating expenses | | |
| Research and development | 542 | 411 |
| Sales, general and administrative | 231 | 185 |
| Total operating expenses | 773 | 596 |
| Income from operations | 1,295 | 554 |
| Interest income | 25 | 16 |
| Interest expense | (15) | (16) |
| Other, net | 6 | (18) |
| Total other income (expense) | 16 | (18) |
| Income before income tax | 1,311 | 536 |
| Income tax expense | 67 | 29 |
| Net income | \$1,244 | \$507 |
| Net income per share: | | |
| Basic | \$2.05 | \$0.86 |
| Diluted | \$1.98 | \$0.79 |
| Weighted average shares used in per share computation: | | |
| Basic | 606 | 592 |
| Diluted | 627 | 641 |

Cash dividends declared and paid per common share \$0.150 \$0.140
See accompanying Notes to Condensed Consolidated Financial Statements.

NVIDIA CORPORATION AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In millions)

(Unaudited)

| | Three Months Ended | |
|---|-----------------------|----------------------|
| | April 29, 2018 | April 30, 2017 |
| Net income | \$1,244 | \$507 |
| Other comprehensive income, net of tax | | |
| Available-for-sale securities: | | |
| Net unrealized gain | 7 | 3 |
| Cash flow hedges: | | |
| Net unrealized loss | (3) | (1) |
| Reclassification adjustments for net realized loss included in net income | 1 | 1 |
| Net change in unrealized loss | (2) | — |
| Other comprehensive income, net of tax | 5 | 3 |
| Total comprehensive income | \$1,249 | \$510 |

See accompanying Notes to Condensed Consolidated Financial Statements.

NVIDIA CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

(In millions)

(Unaudited)

| | April 29, 2018 | January 28, 2018 |
|---|-------------------|------------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 765 | \$ 4,002 |
| Marketable securities | 6,535 | 3,106 |
| Accounts receivable, net | 1,220 | 1,265 |
| Inventories | 797 | 796 |
| Prepaid expenses and other current assets | 131 | 86 |
| Total current assets | 9,448 | 9,255 |
| Property and equipment, net | 1,066 | 997 |
| Goodwill | 618 | 618 |
| Intangible assets, net | 55 | 52 |
| Other assets | 273 | 319 |
| Total assets | \$ 11,460 | \$ 11,241 |

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities:

| | | |
|---------------------------------------|--------|--------|
| Accounts payable | \$ 623 | \$ 596 |
| Accrued and other current liabilities | 469 | 542 |
| Convertible short-term debt | 14 | 15 |
| Total current liabilities | 1,106 | 1,153 |
| Long-term debt | 1,986 | 1,985 |
| Other long-term liabilities | 651 | 632 |
| Total liabilities | 3,743 | 3,770 |

Commitments and contingencies - see Note 13

Shareholders' equity:

| | | |
|--|-----------|-----------|
| Preferred stock | — | — |
| Common stock | 1 | 1 |
| Additional paid-in capital | 5,546 | 5,351 |
| Treasury stock, at cost | (7,755) | (6,650) |
| Accumulated other comprehensive loss | (23) | (18) |
| Retained earnings | 9,948 | 8,787 |
| Total shareholders' equity | 7,717 | 7,471 |
| Total liabilities and shareholders' equity | \$ 11,460 | \$ 11,241 |

See accompanying Notes to Condensed Consolidated Financial Statements.

NVIDIA CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In millions)

(Unaudited)

| | Three Months Ended | |
|---|--------------------|----------------|
| | April 29, 2018 | April 30, 2017 |
| Cash flows from operating activities: | | |
| Net income | \$1,244 | \$507 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Stock-based compensation expense | 129 | 76 |
| Depreciation and amortization | 57 | 47 |
| Deferred income taxes | 51 | 22 |
| Loss on early debt conversions | — | 14 |
| Other | (8) |) 7 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | 56 | (150) |
| Inventories | (2) |) (27) |
| Prepaid expenses and other assets | (38) |) (2) |
| Accounts payable | 22 | (133) |
| Accrued and other current liabilities | (81) |) (87) |
| Other long-term liabilities | 15 | 8 |
| Net cash provided by operating activities | 1,445 | 282 |
| Cash flows from investing activities: | | |
| Proceeds from maturities of marketable securities | 239 | 200 |
| Proceeds from sales of marketable securities | 33 | 649 |
| Purchases of marketable securities | (3,705) | (36) |
| Purchases of property and equipment and intangible assets | (118) |) (54) |
| Investment in non-affiliates | — | (5) |
| Net cash provided by (used in) investing activities | (3,551) |) 754 |
| Cash flows from financing activities: | | |
| Payments related to repurchases of common stock | (655) |) — |
| Repayment of Convertible Notes | (2) |) (605) |
| Dividends paid | (91) |) (82) |
| Proceeds related to employee stock plans | 66 | 65 |
| Payments related to tax on restricted stock units | (449) |) (190) |
| Other | — | (1) |
| Net cash used in financing activities | (1,131) |) (813) |
| Change in cash and cash equivalents | (3,237) |) 223 |
| Cash and cash equivalents at beginning of period | 4,002 | 1,766 |
| Cash and cash equivalents at end of period | \$765 | \$1,989 |

Other non-cash investing activity:

Assets acquired by assuming related liabilities \$43 \$14

See accompanying Notes to Condensed Consolidated Financial Statements.

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

Note 1 - Summary of Significant Accounting Policies

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements were prepared in accordance with accounting principles generally accepted in the United States of America, or U.S. GAAP, for interim financial information and with the instructions to Form 10-Q and Article 10 of Securities and Exchange Commission, or SEC, Regulation S-X. The January 28, 2018 consolidated balance sheet was derived from our audited consolidated financial statements included in our Annual Report on Form 10-K for the fiscal year ended January 28, 2018, as filed with the SEC, but does not include all disclosures required by U.S. GAAP. 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 consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the fiscal year ended January 28, 2018.

Significant Accounting Policies

Except for the accounting policy for revenue recognition, which was updated as a result of adopting a new accounting standard related to revenue recognition, there have been no material changes to our significant accounting policies in Note 1 - Organization and Summary of Significant Accounting Policies, of the Notes to the Consolidated Financial Statements included in our Annual Report on Form 10-K for the fiscal year ended January 28, 2018.

Revenue Recognition

We derive our revenue primarily from product sales, license and development arrangements, and software licensing. We determine revenue recognition through the following steps: (1) identification of the contract with a customer; (2) identification of the performance obligations in the contract; (3) determination of the transaction price; (4) allocation of the transaction price to the performance obligations in the contract; and (5) recognition of revenue when, or as, we satisfy a performance obligation.

Product Sales Revenue

Revenue from product sales is recognized upon transfer of control of promised products to customers in an amount that reflects the consideration we expect to receive in exchange for those products. Revenue is recognized net of allowances for returns, customer programs and any taxes collected from customers.

For products sold with a right of return, we 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 fiscal period are anticipated to exceed historical return rates, we may determine that additional sales return allowances are required to properly reflect our estimated exposure for product returns.

Our customer programs primarily involve rebates, which are designed to serve as sales incentives to resellers of our products in various target markets, and marketing development funds, or MDFs, which represent monies paid to our partners that are earmarked for market segment development and are designed to support our partners' activities while also promoting NVIDIA products. We account for customer programs as a reduction to revenue and accrue for potential rebates and MDFs based on the amount we expect to be claimed by customers.

License and Development Arrangements

Our license and development arrangements with customers typically require significant customization of our intellectual property components. As a result, we recognize the revenue from the license and the revenue from the development services as a single performance obligation over the period in which the development services are performed. We measure progress to completion based on actual cost incurred to date as a percentage of the estimated total cost required to complete each project. If a loss on an arrangement becomes probable during a period, we record

a provision for such loss in that period.

7

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

Software Licensing

Our software licenses provide our customers with a right to use the software when it is made available to the customer. Customers may purchase either perpetual licenses or subscriptions to licenses, which differ mainly in the duration over which the customer benefits from the software. Software licenses are frequently sold along with post contract customer support, or PCS. For such arrangements, we allocate revenue to the software license and PCS on a relative standalone selling price basis by maximizing the use of observable inputs to determine the standalone selling price for each performance obligation. Revenue from software licenses is recognized up front when the software is made available to the customer. PCS revenue is recognized ratably over the service period, or as services are performed.

Fiscal Year

We operate on a 52- or 53-week year, ending on the last Sunday in January. Fiscal years 2019 and 2018 are both 52-week years. The first quarters of fiscal years 2019 and 2018 were both 13-week quarters.

Reclassifications

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

Principles of Consolidation

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

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ materially from our estimates. On an ongoing 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, litigation, investigation and settlement costs, restructuring and other charges, and other contingencies. These estimates are based on historical facts and various other assumptions that we believe are reasonable.

Adoption of New and Recently Issued Accounting Pronouncements

Recently Adopted Accounting Pronouncements

The Financial Accounting Standards Board, or FASB, issued an accounting standards update that creates a single source of revenue guidance under U.S. GAAP for all companies, in all industries. We adopted this guidance on January 29, 2018 using the modified retrospective approach. Refer to Note 2 of these Notes to Condensed Consolidated Financial Statements for additional information.

In January 2016, the FASB issued an accounting standards update to amend certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. We are now required to recognize changes in the fair value of our equity investments through net income rather than other comprehensive income. We adopted this guidance in the first quarter of fiscal year 2019 and applied it prospectively. The adoption of this guidance did not have a significant impact on our consolidated financial statements.

Recent Accounting Pronouncement Not Yet Adopted

In February 2016, the FASB issued an accounting standards update regarding the accounting for leases by which we will begin recognizing lease assets and liabilities on the balance sheet for lease terms of more than 12 months. The update will be effective for us beginning in the first quarter of fiscal year 2020. We expect the adoption of this accounting guidance to result in an increase in lease assets and a corresponding increase in lease liabilities on our Consolidated Balance Sheets.

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

Note 2 - New Revenue Accounting Standard
 Method and Impact of Adoption

On January 29, 2018, we adopted the new revenue accounting standard using the modified retrospective method and applied it to contracts that were not completed as of that date. Upon adoption, we recognized the cumulative effect of the new standard as an increase to opening retained earnings of \$7 million, net of tax. Comparative information for prior periods has not been adjusted. The impact of applying the new standard on our consolidated financial statements for the quarter ended April 29, 2018 was not significant.

Deferred Revenue and Performance Obligations

Deferred revenue is comprised mainly of customer advances and deferrals related to license and development arrangements and PCS related to software licenses. The following table shows the changes in deferred revenue during the first quarter of fiscal year 2019:

| | |
|---|---------------------------------------|
| | April 29, 2018 (In millions) |
| Balance as of January 28, 2018 | \$ 68 |
| Adjustment to retained earnings upon adoption of new revenue standard | (5) |
| Balance as of January 29, 2018 | 63 |
| Deferred revenue added during the period | 86 |
| Revenue recognized during the period | (75) |
| Balance as of April 29, 2018 | \$ 74 |

Revenue related to remaining performance obligations represents the amount of contracted license and development arrangements and PCS that has not been recognized. As of April 29, 2018, the amount of our remaining performance obligations that have not been recognized as revenue was \$243 million, of which we expect to recognize approximately 50% as revenue over the next twelve months and the remainder thereafter. This amount excludes the value of remaining performance obligations for contracts with an original expected length of one year or less.

Refer to Note 15 of these Notes to Condensed Consolidated Financial Statements for additional information, including disaggregated revenue disclosures.

Note 3 - Stock-Based Compensation

Our stock-based compensation expense is associated with stock options, restricted stock units, or RSUs, performance stock units that are based on our corporate financial performance targets, or PSUs, performance stock units that are based on market conditions, or market-based PSUs, and our employee stock purchase plan, or ESPP.

Our Condensed Consolidated Statements of Income include stock-based compensation expense, net of amounts capitalized as inventory, as follows:

| | Three Months Ended | |
|-----------------------------------|-----------------------|-------------------|
| | April 29, 2018 | April 30, 2017 |
| | (In millions) | |
| Cost of revenue | \$8 | \$ 4 |
| Research and development | 74 | 41 |
| Sales, general and administrative | 47 | 31 |
| Total | \$129 | \$ 76 |

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

Equity Award Activity

The following is a summary of equity award transactions under our equity incentive plans:

| | RSUs, PSUs, and Market-based PSUs | Outstanding Weighted Number of Grant-Date Shares Fair Value Per Share (In millions, except per share data) |
|----------------------------|--|---|
| Balances, January 28, 2018 | 22 | \$ 66.72 |
| Granted (1) (2) | 1 | \$ 235.59 |
| Vested restricted stock | (5) | \$ 33.98 |
| Canceled and forfeited | — | |
| Balances, April 29, 2018 | 18 | \$ 81.82 |

Includes PSUs that will be issued and eligible to vest if the maximum corporate financial performance goal for (1) fiscal year 2019 is achieved. Depending on the actual level of the corporate performance achievement at the end of fiscal year 2019, the PSUs issued could be up to 0.3 million shares.

Includes market-based PSUs that will be issued and eligible to vest if the maximum goal for total shareholder return, or TSR, over the 3-year measurement period is achieved. Depending on the ranking of our TSR compared (2) to those of the companies comprising the Standard & Poor's 500 Index during that period, the market-based PSUs issued could be up to 45 thousand shares.

Of the total fair value of equity awards granted during the first quarters of fiscal years 2019 and 2018, we estimated that the stock-based compensation expense related to equity awards that are not expected to vest was \$18 million and \$27 million, respectively.

The following summarizes the aggregate unearned stock-based compensation expense and estimated weighted average amortization period as of April 29, 2018 and January 28, 2018:

| | April 29, 2018 | January 28, 2018 |
|---|----------------------|------------------------|
| | (In millions) | |
| Aggregate unearned stock-based compensation expense | \$1,103 | \$1,091 |
| Estimated weighted average remaining amortization period (In years) | | |
| RSUs, PSUs, and market-based PSUs | 2.3 | 2.3 |
| ESPP | 1.0 | 0.7 |

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

Note 4 – Net Income Per Share

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

| | Three Months Ended | |
|---|--------------------------------------|----------------|
| | April 29, 2018 | April 30, 2017 |
| | (In millions, except per share data) | |
| Numerator: | | |
| Net income | \$1,244 | \$507 |
| Denominator: | | |
| Basic weighted average shares | 606 | 592 |
| Dilutive impact of outstanding securities: | | |
| Equity awards | 20 | 26 |
| 1.00% Convertible Senior Notes | 1 | 14 |
| Warrants issued with the 1.00% Convertible Senior Notes | — | 9 |
| Diluted weighted average shares | 627 | 641 |
| Net income per share: | | |
| Basic (1) | \$2.05 | \$0.86 |
| Diluted (2) | \$1.98 | \$0.79 |
| Equity awards excluded from diluted net income per share because their effect would have been anti-dilutive | 1 | 2 |

(1) Calculated as net income divided by basic weighted average shares.

(2) Calculated as net income divided by diluted weighted average shares.

The 1.00% Convertible Senior Notes Due 2018, or the Convertible Notes, are included in the calculation of diluted net income per share. The Convertible Notes have a dilutive impact on net income per share if our average stock price for the reporting period exceeds the adjusted conversion price of \$20.0296 per share. The warrants associated with our Convertible Notes, or the Warrants, outstanding are also included in the calculation of diluted net income per share.

As of April 29, 2018, there were no warrants outstanding.

For the first quarter of fiscal year 2019, our average stock price was \$235.10, which exceeded the adjusted conversion price, causing the Convertible Notes to have a dilutive impact.

The denominator for diluted net income per share does not include any effect from the convertible note hedge transactions, or the Note Hedges, that we entered into concurrently with the issuance of the Convertible Notes, as its effect would be anti-dilutive. In the event of conversion of the Convertible Notes, the shares delivered to us under the Note Hedges will offset the dilutive effect of the shares that we would issue under the Convertible Notes.

Refer to [Note 12](#) of these Notes to Condensed Consolidated Financial Statements for additional discussion regarding the Convertible Notes and Note Hedges.

Note 5 – Income Taxes

We recognized income tax expense of \$67 million and \$29 million for the first quarter of fiscal years 2019 and 2018, respectively. Income tax expense as a percentage of income before income tax was 5.1% and 5.5% for the first quarter of fiscal years 2019 and 2018, respectively.

The decrease in our effective tax rate in the first quarter of fiscal year 2019 as compared to the same period in the prior fiscal year is primarily due to a decrease in the U.S. statutory tax rate from 35% to 21%, partially offset by a decrease in the impact of tax benefits from stock-based compensation.

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

Our effective tax rates for the first quarter of fiscal years 2019 and 2018 of 5.1% and 5.5%, respectively, were lower than the U.S. federal statutory rates of 21% and 33.9%, for fiscal years 2019 and 2018, respectively, due primarily to income earned in jurisdictions where the tax rate is lower than the U.S. federal statutory tax rate, tax benefits related to stock-based compensation, and the benefit of the U.S. federal research tax credit.

In December 2017, the SEC issued guidance that allows companies to record provisional amounts for the tax effects of the Tax Cuts and Job Acts, or TCJA, during a measurement period not to exceed one year. The TCJA was effective in the fourth quarter of fiscal year 2018 and we have recorded provisional amounts based on reasonable estimates for those tax effects. For the first quarter of fiscal year 2019, we have not recorded any adjustments to our provisional amounts. We will continue our analysis of these provisional amounts, which are still subject to change during the measurement period, and we anticipate further guidance on accounting interpretations from the FASB and application of the law from the U.S. Department of Treasury.

The TCJA subjects a U.S. corporation to tax on its global intangible low-taxed income, or GILTI. Under U.S. GAAP, we can make an accounting policy election to either treat taxes due on the GILTI as a current period expense or factor such amounts into our measurement of deferred taxes. Given the complexity of the GILTI provisions, we are still evaluating its effects and have not yet determined our accounting policy. We expect to complete our analysis within the measurement period. For the first quarter of fiscal year 2019, because we are still evaluating the effects of the GILTI provisions, we have included tax expense related to GILTI for current-year operations in our estimated annual effective tax rate and have not provided for GILTI on deferred items.

For the first quarter of fiscal year 2019, there have been no material changes to our tax years that remain subject to examination by major tax jurisdictions. Additionally, there have been no material changes to our unrecognized tax benefits and any related interest or penalties since the fiscal year ended January 28, 2018.

While we believe that we have adequately provided for all uncertain tax positions, or tax positions where we believe it is not more-likely-than-not that the position will be sustained upon review, 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 29, 2018, we do not believe that our estimates, as otherwise provided for, on such tax positions will significantly increase or decrease within the next twelve months.

Note 6 - Marketable Securities

All of our cash equivalents and marketable securities are classified as “available-for-sale” debt securities.

The following is a summary of cash equivalents and marketable securities as of April 29, 2018 and January 28, 2018:

| | April 29, 2018 | | | Estimated | Reported as |
|---|------------------|------------|------------|-----------|------------------------|
| | Amortized | Unrealized | Unrealized | Fair | Cash Marketable |
| | Cost | Gain | Loss | Value | Equivalents Securities |
| | (In millions) | | | | |
| Debt securities issued by the United States Treasury | \$2,741 | \$ — | \$ (4) | \$ 2,737 | \$100 \$ 2,637 |
| Corporate debt securities | 1,803 | — | (11) | 1,792 | — 1,792 |
| Debt securities of United States government agencies | 1,734 | — | (7) | 1,727 | — 1,727 |
| Money market funds | 460 | — | — | 460 | 460 — |
| Asset-backed securities | 230 | — | (3) | 227 | — 227 |
| Mortgage-backed securities issued by United States government-sponsored enterprises | 119 | 2 | — | 121 | — 121 |
| Foreign government bonds | 31 | — | — | 31 | — 31 |
| Total | \$7,118 | \$ 2 | \$ (25) | \$ 7,095 | \$560 \$ 6,535 |
| | January 28, 2018 | | | | |

Edgar Filing: NVIDIA CORP - Form 10-Q

| | Amortized Cost | Unrealized Gain | Unrealized Loss | Estimated Fair Value | Reported as Cash Equivalents | Marketable Securities |
|---|-------------------|--------------------|--------------------|----------------------------|------------------------------------|--------------------------|
| | (In millions) | | | | | |
| Money market funds | \$3,789 | \$ — | \$ — | \$ 3,789 | \$3,789 | \$ — |
| Corporate debt securities | 1,304 | — | (9) | 1,295 | — | 1,295 |
| Debt securities of United States government agencies | 822 | — | (7) | 815 | — | 815 |
| Debt securities issued by the United States Treasury | 577 | — | (4) | 573 | — | 573 |
| Asset-backed securities | 254 | — | (2) | 252 | — | 252 |
| Mortgage-backed securities issued by United States government-sponsored enterprises | 128 | 2 | — | 130 | — | 130 |
| Foreign government bonds | 42 | — | (1) | 41 | — | 41 |
| Total | \$6,916 | \$ 2 | \$ (23) | \$ 6,895 | \$3,789 | \$ 3,106 |

The following table provides the breakdown of unrealized losses as of April 29, 2018, aggregated by investment category and length of time that individual securities have been in a continuous loss position:

| | Less than 12 Months | | 12 Months or Greater | | Total | |
|---|----------------------------|-------------------------------|----------------------------|-------------------------------|----------------------------|-------------------------------|
| | Estimated Fair Value | Gross Unrealized Losses | Estimated Fair Value | Gross Unrealized Losses | Estimated Fair Value | Gross Unrealized Losses |
| | (In millions) | | | | | |
| Debt securities issued by the United States Treasury | \$1,539 | \$ — | \$502 | \$ (4) | \$2,041 | \$ (4) |
| Debt securities issued by United States government agencies | 1,039 | (1) | 687 | (6) | 1,726 | (7) |
| Corporate debt securities | 253 | (2) | 835 | (9) | 1,088 | (11) |
| Asset-backed securities | 56 | (1) | 172 | (2) | 228 | (3) |
| Total | \$2,887 | \$ (4) | \$2,196 | \$ (21) | \$5,083 | \$ (25) |

The gross unrealized losses related to fixed income securities were primarily due to changes in interest rates, which we believe are temporary in nature. Currently, we have the intent and ability to hold our investments until maturity. For the first quarter of fiscal years 2019 and 2018, there were no other-than-temporary impairment losses and net realized gains were not significant.

The amortized cost and estimated fair value of cash equivalents and marketable securities as of April 29, 2018 and January 28, 2018 are shown below by contractual maturity.

| | April 29, 2018 | | January 28, 2018 | |
|---|-------------------|----------------------------|-------------------|----------------------------|
| | Amortized Cost | Estimated Fair Value | Amortized Cost | Estimated Fair Value |
| | (In millions) | | | |
| Less than 1 year | \$5,490 | \$ 5,481 | \$5,381 | \$ 5,375 |
| Due in 1 - 5 years | 1,593 | 1,578 | 1,500 | 1,485 |
| Mortgage-backed securities issued by United States government-sponsored enterprises not due at a single maturity date | 35 | 36 | 35 | 35 |
| Total | \$7,118 | \$ 7,095 | \$6,916 | \$ 6,895 |

Note 7 – Fair Value of Financial Assets and Liabilities

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. We review fair value hierarchy classification on a quarterly basis. There were no significant transfers between Levels 1 and 2 financial assets and liabilities for the first quarter of fiscal year 2019. Level 3 financial assets and liabilities are based on unobservable inputs to the valuation methodology and include our own data about assumptions market participants would use in pricing the asset or liability based on the best information available under the circumstances.

Fair Value at

| | Pricing Category | April 29, 2018 | January 28, 2018 |
|---|---------------------|-------------------|---------------------|
| (In millions) | | | |
| Assets | | | |
| Cash equivalents and marketable securities: | | | |
| Debt securities issued by the United States Treasury | Level 2 | \$2,737 | \$ 573 |
| Corporate debt securities | Level 2 | \$1,792 | \$ 1,295 |
| Debt securities of United States government agencies | Level 2 | \$1,727 | \$ 815 |
| Money market funds | Level 1 | \$460 | \$ 3,789 |
| Asset-backed securities | Level 2 | \$227 | \$ 252 |
| Mortgage-backed securities issued by United States government-sponsored enterprises | Level 2 | \$121 | \$ 130 |
| Foreign government bonds | Level 2 | \$31 | \$ 41 |
| Liabilities | | | |
| Current liability: | | | |
| 1.00% Convertible Senior Notes (1) | Level 2 | \$159 | \$ 189 |
| Other noncurrent liabilities: | | | |
| 2.20% Notes Due 2021 (1) | Level 2 | \$972 | \$ 982 |
| 3.20% Notes Due 2026 (1) | Level 2 | \$954 | \$ 986 |

These liabilities are carried on our Consolidated Balance Sheets at their original issuance value, net of unamortized (1) debt discount and issuance costs, and are not marked to fair value each period. Refer to Note 12 of these Notes to Condensed Consolidated Financial Statements for additional information.

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

Note 8 - Amortizable Intangible Assets

The components of our amortizable intangible assets are as follows:

| | April 29, 2018 | | | January 28, 2018 | | |
|---------------------------------------|-----------------------|--------------------------|---------------------|-----------------------|--------------------------|---------------------|
| | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount |
| | (In millions) | | | (In millions) | | |
| Acquisition-related intangible assets | \$195 | \$ (183) | \$ 12 | \$195 | \$ (180) | \$ 15 |
| Patents and licensed technology | 483 | (440) | 43 | 469 | (432) | 37 |
| Total intangible assets | \$678 | \$ (623) | \$ 55 | \$664 | \$ (612) | \$ 52 |

The increase in gross carrying amount of intangible assets is primarily due to purchases of licensed technology during the first quarter of fiscal year 2019. Amortization expense associated with intangible assets was \$11 million and \$15 million for the first quarter of fiscal years 2019 and 2018, respectively. Future amortization expense related to the net carrying amount of intangible assets as of April 29, 2018 is estimated to be \$18 million for the remainder of fiscal year 2019, \$20 million in fiscal year 2020, \$11 million in fiscal year 2021, \$3 million in fiscal year 2022, and \$3 million in fiscal year 2023 and beyond.

Note 9 - Balance Sheet Components

Certain balance sheet components are as follows:

| | April 29, 2018 | January 28, 2018 |
|-------------------|----------------|------------------|
| Inventories: | (In millions) | |
| Raw materials | \$214 | \$227 |
| Work in-process | 254 | 192 |
| Finished goods | 329 | 377 |
| Total inventories | \$797 | \$796 |

As of April 29, 2018, we had outstanding inventory purchase obligations totaling \$1.69 billion.

| | April 29, 2018 | January 28, 2018 |
|---|----------------|------------------|
| Accrued and Other Current Liabilities: | (In millions) | |
| Customer program accruals | \$182 | \$181 |
| Accrued payroll and related expenses | 94 | 172 |
| Deferred revenue (1) | 56 | 53 |
| Taxes payable | 38 | 33 |
| Accrued royalties | 17 | 17 |
| Professional service fees | 16 | 15 |
| Warranty accrual (2) | 15 | 15 |
| Coupon interest on debt obligations | 7 | 20 |
| Other | 44 | 36 |
| Total accrued and other current liabilities | \$469 | \$542 |

(1) Deferred revenue primarily includes customer advances and deferrals related to license and development arrangements and PCS.

(2) Refer to Note 11 of these Notes to Condensed Consolidated Financial Statements for a discussion regarding warranties.

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

| | April 29, 2018 | January 28, 2018 |
|-----------------------------------|----------------------|------------------------|
| Other Long-Term Liabilities: | (In millions) | |
| Income tax payable (1) | \$569 | \$ 559 |
| Deferred income tax liability | 19 | 18 |
| Employee benefits liability | 18 | 12 |
| Deferred revenue (2) | 18 | 15 |
| Deferred rent | 12 | 9 |
| Other | 15 | 19 |
| Total other long-term liabilities | \$651 | \$ 632 |

(1) As of April 29, 2018, represents the long-term portion of the one-time transition tax payable of \$369 million, as well as unrecognized tax benefits of \$184 million and related interest and penalties of \$16 million.

(2) Deferred revenue primarily includes deferrals related to license and development arrangements and PCS.

Note 10 - Derivative Financial Instruments

We enter into foreign currency forward contracts to mitigate the impact of foreign currency exchange rate movements on our operating expenses. We designate these contracts as cash flow hedges and assess the effectiveness of the hedge relationships on a spot to spot basis. Gains or losses on the contracts are recorded in accumulated other comprehensive income or loss and reclassified to operating expense when the related operating expenses are recognized in earnings or ineffectiveness should occur. The fair value of the contracts was not significant as of April 29, 2018 and January 28, 2018.

We also enter into foreign currency forward contracts to mitigate the impact of foreign currency movements on monetary assets and liabilities that are denominated in currencies other than U.S. dollar. These forward contracts were not designated for hedge accounting treatment. Therefore, the change in fair value of these contracts is recorded in other income or expense and offsets the change in fair value of the hedged foreign currency denominated monetary assets and liabilities, which is also recorded in other income or expense.

The table below presents the notional value of our foreign currency forward contracts outstanding as of April 29, 2018 and January 28, 2018:

| | April 29, 2018 | January 28, 2018 |
|-------------------------------------|-------------------|---------------------|
| | (In millions) | |
| Designated as cash flow hedges | \$216 | \$ 104 |
| Not designated for hedge accounting | \$76 | \$ 94 |

As of April 29, 2018, all designated foreign currency forward contracts mature within twelve months. We expect to realize all gains and losses deferred into accumulated other comprehensive income (loss) related to foreign currency forward contracts within the next twelve months.

During the first quarter of fiscal years 2019 and 2018, the impact of derivative financial instruments designated for hedge accounting treatment on other comprehensive income or loss was not significant and all such instruments were determined to be highly effective. Therefore, there were no gains or losses associated with ineffectiveness.

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

Note 11 - 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 returns and estimated product warranty liabilities was \$15 million as of April 29, 2018 and January 28, 2018.

In connection with certain agreements that we have entered into in the past, we have provided indemnities to cover the indemnified party for matters such as tax, product, and employee liabilities. We have 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. We have not recorded any liability in our Condensed Consolidated Financial Statements for such indemnifications.

Note 12 - Debt

Long-Term Debt

2.20% Notes Due 2021 and 3.20% Notes Due 2026

In fiscal year 2017, we issued \$1.00 billion of the 2.20% Notes Due 2021, and \$1.00 billion of the 3.20% Notes Due 2026, or collectively, the Notes. Interest on the Notes is payable on March 16 and September 16 of each year, beginning on March 16, 2017. Upon 30 days' notice to holders of the Notes, we may redeem the Notes for cash prior to maturity, at redemption prices that include accrued and unpaid interest, if any, and a make-whole premium. However, no make-whole premium will be paid for redemptions of the Notes Due 2021 on or after August 16, 2021, or for redemptions of the Notes Due 2026 on or after June 16, 2026. The net proceeds from the Notes were \$1.98 billion, after deducting debt discount and issuance costs.

The Notes are our unsecured senior obligations and rank equally in right of payment with all of our existing and future unsecured and unsubordinated indebtedness. The Notes are structurally subordinated to the liabilities of our subsidiaries and are effectively subordinated to any secured indebtedness to the extent of the value of the assets securing such indebtedness. All existing and future liabilities of our subsidiaries will be effectively senior to the Notes.

The carrying value of the Notes and the associated interest rates were as follows:

| | Expected Remaining Term (years) | Effective Interest Rate | April 29, 2018 | January 28, 2018 |
|--|------------------------------------|----------------------------|-------------------|------------------------|
| | | | (In millions) | |
| 2.20% Notes Due 2021 | 3.4 | 2.38% | \$1,000 | \$1,000 |
| 3.20% Notes Due 2026 | 8.4 | 3.31% | 1,000 | 1,000 |
| Unamortized debt discount and issuance costs | | | (14) | (15) |
| Net carrying amount | | | \$1,986 | \$1,985 |

Convertible Debt

1.00% Convertible Senior Notes Due 2018

In fiscal year 2014, we issued \$1.50 billion of 1.00% Convertible Senior Notes due 2018. Through the first quarter of fiscal year 2019, we had settled an aggregate of \$1.49 billion of the Convertible Notes. The Convertible Notes are unsecured, unsubordinated obligations of the Company paying interest in cash semi-annually at a rate of 1.00% per

annum and will mature on December 1, 2018 unless previously repurchased or converted. Upon conversion, we pay cash up to the aggregate principal amount and pay or deliver cash, shares of our common stock or a combination thereof, at our election, of our conversion obligation in excess of the aggregate principal amount being converted.

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

Holder may convert all or any portion of their Convertible Notes at any time prior to August 1, 2018 under certain circumstances. For example, during any fiscal quarter, if the last reported sale price of the common stock for at least 20 trading days 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, the Convertible Notes become convertible at the holders' option. As this condition has been met, all outstanding Convertible Notes are convertible at the holders' option through July 29, 2018.

During the first quarter of fiscal year 2019, we paid cash to settle an aggregate of \$2 million in principal amount of the Convertible Notes and had \$14 million in principal amount outstanding as of April 29, 2018. We also issued 74 thousand shares of our common stock for the excess conversion value and the related loss on early conversions was not significant. Based on the closing price of our common stock of \$226.33 on the last trading day of the first quarter of fiscal year 2019, the if-converted value of the remaining outstanding Convertible Notes exceeded their principal amount by approximately \$144 million. As of April 29, 2018, the conversion rate was 49.9261 shares of common stock per \$1,000 principal amount of the Convertible Notes (equivalent to an adjusted conversion price of \$20.0296 per share of common stock).

Note Hedges

Concurrently with the issuance of the Convertible Notes, we entered into the Note Hedges. The Note Hedges have an adjusted strike price of \$20.0296 per share and allow us to receive shares of our common stock and/or cash related to the excess conversion value that we would deliver and/or pay, respectively, to the holders of the Convertible Notes upon conversion. Through April 29, 2018, we had received 56 million shares of our common stock from the exercise of a portion of the Note Hedges related to the settlement of \$1.49 billion in principal amount of the Convertible Notes.

Revolving Credit Facility

In fiscal year 2017, we entered into a credit agreement, or the Credit Agreement, under which we may borrow, repay and re-borrow amounts from time to time, up to \$575 million, for working capital and other general corporate purposes. The commitments under the Credit Agreement are available for a 5-year period ending on October 7, 2021. The Credit Agreement also permits us to obtain additional revolving loan commitments up to \$425 million, subject to certain conditions. As of April 29, 2018, we had not borrowed any amounts and were in compliance with all related covenants under the Credit Agreement.

Commercial Paper

In fiscal year 2018, we established a commercial paper program to support general corporate purposes. Under the program, we can issue up to \$575 million in commercial paper. As of April 29, 2018, we had not issued any commercial paper and there was no commercial paper outstanding.

Note 13 - Commitments and Contingencies

Litigation

Polaris Innovations Limited

On May 16, 2016, Polaris Innovations Limited, or Polaris, a non-practicing entity and wholly-owned subsidiary of Quarterhill Inc. (formerly WiLAN Inc.), filed a complaint against NVIDIA for patent infringement in the United States District Court for the Western District of Texas. Polaris alleges that NVIDIA has infringed and is continuing to infringe six U.S. patents relating to the control of dynamic random-access memory, or DRAM: 6,532,505; 7,124,325; 7,405,993; 7,886,122; 8,161,344; and 8,207,976. The complaint seeks unspecified monetary damages, enhanced damages, interest, fees, expenses, and costs against NVIDIA. On September 14, 2016, NVIDIA answered the Polaris Complaint and asserted various defenses including non-infringement and invalidity of the six Polaris patents.

On December 5, 2016, the Texas Court granted NVIDIA's motion to transfer and ordered the case transferred to the Northern District of California.

Between December 7, 2016 and July 25, 2017, NVIDIA filed multiple petitions for inter partes review, or IPR, at the United States Patent and Trademark Office, or USPTO, challenging the validity of each of the patents asserted by

Polaris in the U.S. litigation. The USPTO instituted IPRs for U.S. Patent Nos. 6,532,505; 7,405,993; 7,886,122; and 8,161,344. The USPTO declined to institute IPRs on U.S. Patent Nos. 7,124,325 and 8,207,976.

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

On June 15, 2017, the California Court granted NVIDIA's motion to stay the district court litigation pending resolution of the petitions for IPR. The California Court has not set a trial date.

On December 30, 2016, Polaris filed a complaint against NVIDIA for patent infringement in the Regional Court of Düsseldorf, Germany. Polaris alleges that NVIDIA has infringed and is continuing to infringe three patents relating to control of DRAM: European Patent No. EP1428225, and German Patent Nos. DE 10223167 and DE 1020066043668. On July 14, 2017, NVIDIA filed defenses to the infringement allegations including non-infringement with respect to each of the three asserted patents.

An oral hearing is scheduled for February 21, 2019.

Between March 31, 2017 and June 12, 2017, NVIDIA filed nullity actions with the German Patent Court challenging the validity of each of the patents asserted by Polaris in the German litigation.

ZiiLabs 1 Patents Lawsuit

On October 2, 2017, ZiiLabs Inc., Ltd., or ZiiLabs, a non-practicing entity, filed a complaint in the United States District Court for the District of Delaware alleging that NVIDIA has infringed and is continuing to infringe four U.S. patents relating to GPUs: 6,683,615; 7,050,061; 7,710,425; and 9,098,943, or the ZiiLabs 1 Patents. ZiiLabs is a Bermuda corporation and a wholly-owned subsidiary of Creative Technology Asia Limited, a Hong Kong company which is itself is a wholly-owned subsidiary of Creative Technology Ltd. a publicly traded Singapore company. The complaint seeks unspecified monetary damages, enhanced damages, interest, costs, and fees against NVIDIA and an injunction against further direct or direct infringement of the ZiiLabs 1 Patents. On November 27, 2017, NVIDIA answered the ZiiLabs complaint and asserted various defenses including non-infringement and invalidity of the ZiiLabs 1 Patents.

On January 10, 2018, ZiiLabs filed a first amended complaint asserting infringement of a fifth U.S. Patent No. 6,977,649.

On February 22, 2018, the Delaware Court stayed the ZiiLabs 1 case pending the resolution of the ITC investigation over the ZiiLabs 2 patents.

ZiiLabs 2 Patents Lawsuits

On December 27, 2017, ZiiLabs filed a second complaint in the United States District Court for the District of Delaware alleging that NVIDIA has infringed four additional U.S. Patents: 6,181,355; 6,900,800; 8,144,156; and 8,643,659, or the ZiiLabs 2 Patents. The second complaint also seeks unspecified monetary damages, enhanced damages, interest, costs, and fees against NVIDIA and an injunction against further direct or direct infringement of the ZiiLabs 2 Patents.

On February 22, 2018, the Delaware Court stayed the district court action on the ZiiLabs 2 patents pending the resolution of the ITC Investigation over the ZiiLabs 2 patents.

On December 29, 2017, ZiiLabs filed a request with the U.S. International Trade Commission, or USITC, to commence an Investigation pursuant to Section 337 of the Tariff Act of 1930 relating to the unlawful importation of certain graphics processors and products containing the same. ZiiLabs alleges that the unlawful importation results from the infringement of the ZiiLabs 2 Patents by products from respondents NVIDIA, ASUSTeK Computer Inc., ASUS Computer International, EVGA Corporation, Gigabyte Technology Co., Ltd., G.B.T. Inc., Micro-Star International Co., Ltd., MSI Computer Corp., Nintendo Co., Ltd., Nintendo of America Inc., PNY Technologies Inc., Zotac International (MCO) Ltd., and Zotac USA Inc.

On February 28, 2018, NVIDIA and the other respondents answered the ITC complaint and asserted various defenses including non-infringement and invalidity of the four asserted ZiiLabs 2 patents.

Accounting for Loss Contingencies

While there can be no assurance of favorable outcomes, we believe the claims made by the other parties in the above ongoing matters are without merit and we intend to vigorously defend the actions. As of April 29, 2018, 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 loss or 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.

17

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

Note 14 - Shareholders' Equity

Capital Return Program

Beginning August 2004, our Board of Directors authorized us to repurchase our stock.

During the first quarter of fiscal year 2019, we repurchased a total of 3 million shares for \$655 million and paid \$91 million in cash dividends to our shareholders.

Through April 29, 2018, we have repurchased an aggregate of 254 million shares under our share repurchase program for a total cost of \$6.16 billion. All shares delivered from these repurchases have been placed into treasury stock. As of April 29, 2018, we were authorized, subject to certain specifications, to repurchase additional shares of our common stock up to \$1.16 billion through December 2020.

Preferred Stock

As of April 29, 2018 and January 28, 2018, there were no shares of preferred stock outstanding.

Common Stock

We are authorized to issue up to 2.00 billion shares of our common stock at \$0.001 per share par value.

Note 15 - Segment Information

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

We report our business in two primary reportable segments - the GPU business and the Tegra Processor business - based on a single underlying graphics architecture.

While our GPU and CUDA architecture is unified, our GPU product brands are aimed at specialized markets including GeForce for gamers; Quadro for designers; Tesla and DGX for AI data scientists and big data researchers; and GRID for cloud-based visual computing users. Our Tegra brand integrates an entire computer onto a single chip, and incorporates GPUs and multi-core CPUs to drive supercomputing for autonomous robots, drones, and cars, as well as for consoles and mobile gaming and entertainment devices.

Under the single unifying graphics architecture for our GPU and Tegra Processors, we leverage 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 reportable segments, our CODM assigns 100% of those expenses to the reportable segment that benefits the most.

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 stock-based compensation expense, corporate infrastructure and support costs, acquisition-related costs, legal settlement costs, contributions, restructuring and other charges, product warranty charge, 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 reportable segment basis. Reportable segments do not record intersegment revenue, and, accordingly, there is none to be reported. The accounting policies for segment reporting are the same as for NVIDIA as a whole. The table below presents details of our reportable segments and the "All Other" category.

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

| | GPU | Tegra Processor | All Other | Consolidated |
|---------------------------------------|---------|--------------------|--------------|--------------|
| (In millions) | | | | |
| Three Months Ended April 29, 2018 | | | | |
| Revenue | \$2,765 | \$ 442 | \$— | \$ 3,207 |
| Depreciation and amortization expense | \$40 | \$ 10 | \$7 | \$ 57 |
| Operating income (loss) | \$1,394 | \$ 97 | \$(196) | \$ 1,295 |

| | | | | |
|---------------------------------------|---------|--------|---------|----------|
| Three Months Ended April 30, 2017 | | | | |
| Revenue | \$1,562 | \$ 332 | \$43 | \$ 1,937 |
| Depreciation and amortization expense | \$28 | \$ 9 | \$10 | \$ 47 |
| Operating income (loss) | \$602 | \$ 47 | \$(95) | \$ 554 |

Three Months
Ended
April 29, April 30,
2018 2017
(In millions)

Reconciling items included in "All Other" category:

| | | | |
|--|---------|---------|--|
| Unallocated revenue | \$— | \$ 43 | |
| Stock-based compensation expense | (129) | (76) | |
| Unallocated cost of revenue and operating expenses | (63) | (56) | |
| Acquisition-related costs | (2) | (4) | |
| Legal settlement costs | (2) | — | |
| Contributions | — | (2) | |
| Total | \$(196) | \$(95) | |

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 table summarizes information pertaining to our revenue from customers based on the invoicing address by geographic regions:

| | Three Months Ended | |
|--------------------|-----------------------|----------------------|
| | April 29, 2018 | April 30, 2017 |
| (In millions) | | |
| Revenue: | | |
| Taiwan | \$967 | \$602 |
| China | 754 | 330 |
| Other Asia Pacific | 583 | 377 |
| United States | 434 | 353 |
| Europe | 235 | 182 |
| Other Americas | 234 | 93 |
| Total revenue | \$3,207 | \$1,937 |

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

The following table summarizes information pertaining to our revenue by each of the specialized markets we serve:

| | Three Months Ended | |
|----------------------------|-----------------------|----------------------|
| | April 29, 2018 | April 30, 2017 |
| | (In millions) | |
| Revenue: | | |
| Gaming | \$1,723 | \$1,027 |
| Professional Visualization | 251 | 205 |
| Datacenter | 701 | 409 |
| Automotive | 145 | 140 |
| OEM & IP | 387 | 156 |
| Total revenue | \$3,207 | \$1,937 |

Revenue from significant customers, those representing 10% or more of total revenue, aggregated approximately 20% of our total revenue from two customers for the first quarter of fiscal year 2019, and was attributable primarily to the GPU business. No single customer represented 10% or more of total revenue for the first quarter of fiscal year 2018. Accounts receivable from significant customers, those representing more than 10% of total accounts receivable, aggregated approximately 18% of our accounts receivable balance from one customer as of April 29, 2018, and approximately 28% of our accounts receivable balance from two customers as of January 28, 2018.

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 when it is made clear that the term means only the parent company.

NVIDIA, the NVIDIA logo, GeForce, Quadro, Tegra, Tesla, Jetson, NVIDIA DGX, NVIDIA DRIVE, NVIDIA DRIVE Sim, NVIDIA GRID, NVIDIA Holodeck, NVIDIA NVSwitch, NVIDIA RTX, NVIDIA Volta and TensorRT

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 28, 2018 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 or sell shares of our common stock.

Overview

Our Company and Our Businesses

Starting with a focus on PC graphics, NVIDIA invented the GPU to solve some of the most complex problems in computer science. We have extended our focus in recent years to the revolutionary field of AI. Fueled by the sustained demand for better 3D graphics and the scale of the gaming market, NVIDIA has evolved the GPU into a computer brain at the intersection of virtual reality, high performance computing, or HPC, and artificial intelligence, or AI. Our two reportable segments - GPU and Tegra Processor - are based on a single underlying architecture. From our proprietary processors, we have created platforms that address four large markets where our expertise is critical: Gaming, Professional Visualization, Datacenter, and Automotive.

While our GPU and CUDA architecture is unified, our GPU product brands are aimed at specialized markets including GeForce for gamers; Quadro for designers; Tesla and DGX for AI data scientists and big data researchers; and GRID for cloud-based visual computing users. Our Tegra brand integrates an entire computer onto a single chip, and incorporates GPUs and multi-core CPUs to drive supercomputing for autonomous robots, drones, and cars, as well as for consoles and mobile gaming and entertainment devices.

Headquartered in Santa Clara, California, NVIDIA was incorporated in California in April 1993 and reincorporated in Delaware in April 1998.

Recent Developments, Future Objectives and Challenges

First Quarter of Fiscal Year 2019 Summary

| | Three Months Ended | | | | |
|------------------------------|---|---------------------|-------------------|---------|---------|
| | April 29, 2018 | January 28, 2018 | April 30, 2017 | Q/Q | Y/Y |
| | (\$ in millions, except per share data) | | | | |
| Revenue | \$3,207 | \$ 2,911 | \$ 1,937 | 10 | % 66 % |
| Gross margin | 64.5 % | 61.9 % | 59.4 % | 260 bps | 510 bps |
| Operating expenses | \$ 773 | \$ 728 | \$ 596 | 6 | % 30 % |
| Income from operations | \$ 1,295 | \$ 1,073 | \$ 554 | 21 | % 134 % |
| Net income | \$ 1,244 | \$ 1,118 | \$ 507 | 11 | % 145 % |
| Net income per diluted share | \$ 1.98 | \$ 1.78 | \$ 0.79 | 11 | % 151 % |

Revenue for the first quarter of fiscal year 2019 increased 66% year over year and 10% sequentially. All of our market platforms - gaming, professional visualization, datacenter, and automotive - produced year-over-year growth.

GPU business revenue was \$2.77 billion, up 77% from a year earlier and up 12% sequentially, led by gaming and datacenter. Gaming revenue was up 68% from a year ago and down 1% sequentially. Gaming GPU growth was fueled by demand from gamers playing eSports, momentum of the Battle Royale genre, and AAA cinematic games.

Datacenter revenue was \$701 million, up 71% from a year ago and up 16% sequentially, led by strong sales of our Volta architecture, including NVIDIA Tesla V100, new DGX systems, and HPC design wins. Professional visualization revenue was \$251 million, up 22% from a year earlier and down 1% sequentially. OEM sales included \$289 million related to GPUs for cryptocurrency mining.

Tegra processor business revenue, which includes SOC modules for the Nintendo Switch gaming console, was \$442 million, up 33% from a year ago and down 2% sequentially. Also included was Automotive revenue of \$145 million, which was up 4% from a year earlier and up 10% sequentially, incorporating infotainment modules, production DRIVE PX platforms, and development agreements with automotive companies.

Revenue from our patent license agreement with Intel concluded in the first quarter of fiscal year 2018.

We adopted the new accounting standard for revenue recognition in the first quarter of fiscal year 2019 using the modified retrospective approach. The impact of adopting the new revenue standard was not significant to our consolidated financial statements in the first quarter.

Gross margin for the first quarter of fiscal year 2019 was 64.5%, increasing from the prior year and the previous quarter due to strong growth in datacenter revenue and the mix within our GeForce gaming GPUs.

Operating expenses for the first quarter of fiscal year 2019 were \$773 million, up 30% from a year earlier and up 6% sequentially, reflecting increased headcount and related costs for our growth initiatives - gaming, AI, and autonomous driving.

Income from operations for the first quarter of fiscal year 2019 was \$1.29 billion, up 134% from a year earlier and up 21% sequentially. Net income and net income per diluted share for the first quarter of fiscal year 2019 were \$1.24 billion and \$1.98, respectively, up 145% and 151%, respectively, from a year earlier, fueled by strong revenue growth and improved gross and operating margins.

During the first quarter of fiscal year 2019, we returned to shareholders \$655 million in share repurchases and \$91 million in cash dividends. For fiscal year 2019, we intend to return \$1.25 billion to shareholders through ongoing quarterly cash dividends and share repurchases.

Cash, cash equivalents and marketable securities were \$7.30 billion as of April 29, 2018, compared with \$7.11 billion at the end of the prior quarter. The sequential increase was primarily related to the increase in operating income, as well as strong collections of outstanding accounts receivable, and partially offset by an increase in share repurchases.

GPU Business

During the first quarter of fiscal year 2019, we announced NVIDIA RTX, a computer graphics technology that produces movie-quality images in real time. We also unveiled advances to our deep learning computing platform - including NVIDIA Tesla V100 GPUs with 32GB memory, NVIDIA NVSwitch GPU interconnect fabric, NVIDIA DGX-2, and TensorRT 4, the latest version of the TensorRT AI inference accelerator software. In addition, we announced GPU acceleration for Kubernetes to facilitate enterprise inference deployment on multi-cloud GPU clusters and the Quadro GV100 GPU with RTX technology, making real-time ray tracing possible on professional design and content creation applications.

Tegra Processor Business

During the first quarter of fiscal year 2019, we introduced the NVIDIA DRIVE Constellation server with DRIVE Sim software, a complete system to safely test drive autonomous vehicles over billions of miles in virtual reality by leveraging NVIDIA GPUs and NVIDIA DRIVE Pegasus.

Financial Information by Business Segment and Geographic Data

Refer to [Note 15](#) of the Notes to Condensed Consolidated Financial Statements for disclosure regarding segment information.

Results of Operations

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

| | Three Months Ended | |
|-----------------------------------|--------------------|----------------|
| | April 29, 2018 | April 30, 2017 |
| Revenue | 100.0 % | 100.0 % |
| Cost of revenue | 35.5 | 40.6 |
| Gross profit | 64.5 | 59.4 |
| Operating expenses | | |
| Research and development | 16.9 | 21.2 |
| Sales, general and administrative | 7.2 | 9.6 |
| Total operating expenses | 24.1 | 30.8 |
| Income from operations | 40.4 | 28.6 |
| Interest income | 0.8 | 0.8 |
| Interest expense | (0.5) | (0.8) |
| Other, net | 0.2 | (0.9) |
| Total other income (expense) | 0.5 | (0.9) |
| Income before income tax | 40.9 | 27.7 |
| Income tax expense | 2.1 | 1.5 |
| Net income | 38.8 % | 26.2 % |

Revenue

Revenue by Reportable Segments

| | Three Months Ended | | | |
|-----------------|--------------------|----------------|-----------|----------|
| | April 29, 2018 | April 30, 2017 | \$ Change | % Change |
| | (\$ in millions) | | | |
| GPU | \$2,765 | \$1,562 | \$1,203 | 77 % |
| Tegra Processor | 442 | 332 | 110 | 33 % |
| All Other | — | 43 | (43) | (100)% |
| Total | \$3,207 | \$1,937 | \$1,270 | 66 % |

GPU Business. GPU business revenue increased by 77% for the first quarter of fiscal year 2019 compared to the first quarter of fiscal year 2018. This increase was due primarily to increased revenue from sales of GeForce GPU products for gaming, which increased 70%, reflecting continued strong demand from gamers playing eSports, momentum of the Battle Royale genre, and AAA cinematic games. Datacenter revenue, including Tesla, GRID and DGX, increased 71%, reflecting strong sales of our Volta architecture, including NVIDIA Tesla V100, new DGX systems, and strong demand for HPC. Revenue from Quadro GPUs for professional visualization increased 22% due primarily to higher sales in overall desktop workstation products and mid-range mobile workstation products. Our PC OEM revenue increased by over 320% due primarily to strong demand for GPU products targeted for use in cryptocurrency mining.

Tegra Processor Business. Tegra Processor business revenue increased by 33% for the first quarter of fiscal year 2019 compared to the first quarter of fiscal year 2018. This was driven by an increase of over 85% in revenue from SOC modules for gaming platforms and development services, and an increase of 4% in automotive revenue, primarily from infotainment modules, DRIVE PX platforms and development agreements for self-driving cars.

All Other. Our patent license agreement with Intel concluded in the first quarter of fiscal year 2018.

Concentration of Revenue

Revenue from sales to customers outside of the United States and Other Americas accounted for 79% and 77% of total revenue for the first quarter of fiscal years 2019 and 2018, 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, aggregated approximately 20% of our total revenue from two customers for the first quarter of fiscal year 2019. No single customer represented 10% or more of total revenue for the first quarter of fiscal year 2018.

Gross Margin

Our overall gross margin increased to 64.5% for the first quarter of fiscal year 2019 from 59.4% for the first quarter of fiscal year 2018, primarily due to a favorable mix shift within our GPU segment.

Inventory provision costs totaled \$33 million and \$3 million for the first quarter of fiscal years 2019 and 2018, respectively. Sales of inventory that was previously written-off or written-down totaled \$4 million and \$13 million for the first quarter of fiscal years 2019 and 2018, respectively. As a result, the overall net effect on our gross margin from charges for inventory provision costs and sales of items previously written-off or written-down was a 0.9% unfavorable impact for the first quarter of fiscal year 2019 and a 0.6% favorable impact for the first quarter of fiscal year 2018.

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

GPU Business. The gross margin of our GPU business increased during the first quarter of fiscal year 2019 compared to the first quarter of fiscal year 2018, primarily due to strong sales of high-end GeForce gaming GPU products.

Tegra Processor Business. The gross margin of our Tegra Processor business increased during the first quarter of fiscal year 2019 compared to the first quarter of fiscal year 2018. The increase in Tegra margins was primarily due to a favorable mix shift and revenue growth in gaming development platforms.

Operating Expenses

| | Three Months Ended | | | |
|--|--------------------|----------------|-----------|----------|
| | April 29, 2018 | April 30, 2017 | \$ Change | % Change |
| | (\$ in millions) | | | |
| Research and development expenses | \$542 | \$411 | \$131 | 32% |
| % of net revenue | 17% | 21% | | |
| Sales, general and administrative expenses | 231 | 185 | 46 | 25% |
| % of net revenue | 7% | 10% | | |
| Total operating expenses | \$773 | \$596 | \$177 | 30% |

Research and Development

Research and development expenses increased by 32% during the first quarter of fiscal year 2019, compared to the first quarter of fiscal year 2018, driven primarily by employee additions and increases in employee compensation and other related costs, including stock-based compensation expense.

Sales, General and Administrative

Sales, general and administrative expenses increased by 25% during the first quarter of fiscal year 2019, compared to the first quarter of fiscal year 2018, driven primarily by employee additions and increases in employee compensation and other related costs, including stock-based compensation expense.

Total Other Income (Expense)

Interest Income and Interest Expense

Interest income consists of interest earned on cash, cash equivalents and marketable securities. Interest income was \$25 million and \$16 million during the first quarter of fiscal years 2019 and 2018, respectively. The increase in interest income

was primarily due to higher average cash balances invested in interest bearing securities, as well as higher purchased yields.

Interest expense is primarily comprised of coupon interest and debt discount amortization related to the 2.20% Notes Due 2021 and 3.20% Notes Due 2026 issued in September 2016, and the 1.00% Convertible Notes Due 2018, or the Convertible Notes, issued in December 2013. Interest expense was \$15 million and \$16 million during the first quarter of fiscal years 2019 and 2018, respectively.

Other, Net

Other, net, consists primarily of realized gains and losses from the sale of marketable securities, sales or impairments of investments in non-affiliated companies, realized and unrealized gains and losses from non-affiliated investments, losses on early debt conversions of the Convertible Notes, and the impact of changes in foreign currency rates. Other, net, was not significant during the first quarter of fiscal year 2019. Other, net, was an expense of \$18 million during the first quarter of fiscal year 2018, consisting primarily of \$14 million of losses recognized from early conversions of the Convertible Notes.

Income Taxes

We recognized income tax expense of \$67 million and \$29 million for the first quarter of fiscal years 2019 and 2018, respectively. Income tax expense as a percentage of income before income tax was 5.1% and 5.5% for the first quarter of fiscal years 2019 and 2018, respectively.

The decrease in our effective tax rate in the first quarter of fiscal year 2019 as compared to the same period in the prior fiscal year is primarily due to a decrease in the U.S. statutory tax rate from 35% to 21%, partially offset by a decrease in the impact of tax benefits from stock-based compensation.

Refer to Note 5 of the Notes to Condensed Consolidated Financial Statements for further information.

Liquidity and Capital Resources

| | April 29, 2018 | January 28, 2018 |
|---|-----------------------|---------------------|
| | (In millions) | |
| Cash and cash equivalents | \$765 | \$ 4,002 |
| Marketable securities | 6,535 | 3,106 |
| Cash, cash equivalents and marketable securities | \$7,300 | \$ 7,108 |
| | Three Months Ended | |
| | April 29, 2018 | April 30, 2017 |
| | (In millions) | |
| Net cash provided by operating activities | \$1,445 | \$ 282 |
| Net cash provided by (used in) investing activities | \$(3,551) | \$ 754 |
| Net cash used in financing activities | \$(1,131) | \$(813) |

As of April 29, 2018, we had \$7.30 billion in cash, cash equivalents and marketable securities, an increase of \$192 million from the end of fiscal year 2018. Our portfolio of cash equivalents and marketable securities is managed both internally as well as on our behalf by several financial institutions. Our portfolio managers are required to follow our investment policy, which requires the purchase of high grade investment securities, the diversification of asset types, and certain limits on our portfolio duration.

Cash provided by operating activities increased in the first quarter of fiscal year 2019 compared to the first quarter of fiscal year 2018, primarily due to higher net income and changes in working capital.

Cash used in investing activities increased in the first quarter of fiscal year 2019 compared to the first quarter of fiscal year 2018, primarily due to higher purchases of marketable securities and lower sales of marketable securities.

Cash used in financing activities increased in the first quarter of fiscal year 2019 compared to the first quarter of fiscal year 2018, primarily due to share repurchases and higher tax payments related to employee stock plans, partially offset by lower repayments of Convertible Notes.

Liquidity

Our primary sources of liquidity are our cash and cash equivalents, our marketable securities, and the cash generated by our operations. As of April 29, 2018 and January 28, 2018, we had \$7.30 billion and \$7.11 billion, respectively, in cash, cash equivalents and marketable securities. Our marketable securities consist of debt securities issued by the United States government and its agencies, highly rated corporations and financial institutions, asset-backed issuers, mortgage-backed securities by government-sponsored enterprises, and foreign government entities. These marketable securities are denominated in United States dollars. Refer to Note 6 of the Notes to Condensed Consolidated Financial Statements for additional information.

As a result of the Tax Cuts and Job Acts that was signed into law in December 2017, substantially all of our cash, cash equivalents and marketable securities held outside of the United States as of April 29, 2018 are available for use in the U.S. without incurring additional U.S. federal income taxes. Refer to Note 5 of the Notes to Condensed Consolidated Financial Statements for additional information.

Capital Return to Shareholders

During the first quarter of fiscal year 2019, we repurchased a total of 3 million shares for \$655 million and paid \$91 million in cash dividends to our shareholders.

For fiscal year 2019, we intend to return \$1.25 billion to shareholders through ongoing quarterly cash dividends and share repurchases.

Our cash dividend program and the payment of future cash dividends under that program are subject to our Board's continuing determination that the dividend program and the declaration of dividends thereunder are in the best interests of our shareholders. Refer to Note 14 of the Notes to Condensed Consolidated Financial Statements for additional information.

Notes Due 2021 and Notes Due 2026

In fiscal year 2017, we issued \$1.00 billion of the 2.20% Notes Due 2021 and \$1.00 billion of the 3.20% Notes Due 2026, collectively, the Notes. The net proceeds from the Notes were \$1.98 billion, after deducting debt discounts and issuance costs.

Convertible Notes

As of April 29, 2018, we had \$14 million of Convertible Notes outstanding. Refer to Note 12 of the Notes to Condensed Consolidated Financial Statements for further discussion.

Revolving Credit Facility

In fiscal year 2017, we entered into a credit agreement, or the Credit Agreement, under which we may borrow, repay and re-borrow amounts from time to time, up to \$575 million. The commitments under the Credit Agreement are available for a 5-year period ending on October 7, 2021. The Credit Agreement also permits us to obtain additional revolving loan commitments and/or commitments to issue letters of credit of up to \$425 million, subject to certain conditions. As of April 29, 2018, there were no amounts outstanding.

Commercial Paper

In fiscal year 2018, we established a commercial paper program to support general corporate purposes. Under the program, we can issue up to \$575 million in commercial paper. As of April 29, 2018, there was no commercial paper outstanding.

Operating Capital and Capital Expenditure Requirements

In the second quarter of fiscal 2019, we intend to begin construction on a 750,000 square foot building on our Santa Clara campus. We believe that our existing cash balances and anticipated cash flows from operations will be sufficient to meet our operating requirements for at least the next twelve months.

Off-Balance Sheet Arrangements

As of April 29, 2018, we had no material off-balance sheet arrangements as defined by applicable SEC regulations.

Contractual Obligations

There were no material changes in our contractual obligations from those disclosed in our Annual Report on Form 10-K for the fiscal year ended January 28, 2018.

Refer to Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources” in our Annual Report on Form 10-K for the fiscal year ended January 28, 2018 for a description of our contractual obligations.

Adoption of New and Recently Issued Accounting Pronouncements

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Investment and Interest Rate Risk

Financial market risks related to investment and interest rate risk are described in our Annual Report on Form 10-K for the fiscal year ended January 28, 2018. As of April 29, 2018, there have been no material changes to the financial market risks described as of January 28, 2018.

Foreign Exchange Rate Risk

The impact of foreign currency transactions related to foreign exchange rate risk is described in our Annual Report on Form 10-K for the fiscal year ended January 28, 2018. As of April 29, 2018, there have been no material changes to the foreign exchange rate risks described as of January 28, 2018.

Refer to Note 10 of the Notes to Condensed Consolidated Financial Statements for additional information.

ITEM 4. CONTROLS AND PROCEDURES

Controls and Procedures

Disclosure Controls and Procedures

Based on their evaluation as of April 29, 2018, our management, including our Chief Executive Officer and Chief Financial Officer, has concluded that our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended) were effective to provide reasonable assurance.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting during the first quarter of fiscal year 2019 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitations on Effectiveness of Controls

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

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Refer to Part I, Item 1, Note 13 of the Notes to Condensed Consolidated Financial Statements for a discussion of significant developments in our legal proceedings since January 28, 2018. Also refer to Item 3, "Legal Proceedings" in our Annual Report on Form 10-K for the fiscal year ended January 28, 2018 for a prior discussion of our legal proceedings.

ITEM 1A. RISK FACTORS

Refer to the description of the risk factors associated with our business previously disclosed in Item 1A of our Annual Report on Form 10-K for the fiscal year ended January 28, 2018. There have been no material changes from the risk factors previously described under Item 1A of our Annual Report on Form 10-K for the fiscal year ended January 28, 2018.

Before you buy our common stock, you should know that making such an investment involves some risks including, but not limited to, the risks described in Item 1A of our Annual Report on Form 10-K for the fiscal year ended January 28, 2018. Additionally, any one of those risks could harm our business, financial condition and results of operations, which could cause our stock price to decline. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also impair our business operations.

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

Issuer Purchases of Equity Securities

Beginning August 2004, our Board of Directors authorized us to repurchase our stock. In November 2016, the Board authorized an additional \$2.00 billion under our repurchase program and extended it through December 2020.

Since the inception of our share repurchase program, we have repurchased an aggregate of 254 million shares under our share repurchase program for a total cost of \$6.16 billion through April 29, 2018. All shares delivered from these repurchases have been placed into treasury stock. As of April 29, 2018, we were authorized, subject to certain specifications, to repurchase additional shares of our common stock up to \$1.16 billion through December 2020. For fiscal year 2019, we intend to return \$1.25 billion to our shareholders through ongoing quarterly cash dividends and share repurchases.

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

The following table presents details of our share repurchase transactions during the first quarter of fiscal year 2019:

| Period | Total Number of Shares Purchased (In millions) | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Program (In millions) | Approximate Dollar Value of Shares that May Yet Be Purchased Under the Program (In billions) |
|--------------------------------------|--|------------------------------|--|--|
| January 29, 2018 - February 25, 2018 | 2 | \$238.63 | 2 | \$ 1.45 |
| February 26, 2018 - March 25, 2018 | 1 | \$236.25 | 1 | \$ 1.16 |

Edgar Filing: NVIDIA CORP - Form 10-Q

| | | | | |
|------------------------------------|---|-----|---|---------|
| March 26, 2018 - April 29, 2018 | — | \$— | — | \$ 1.16 |
| Total | 3 | | 3 | |

28

Transactions Related to our Convertible Notes and Note Hedges

During the first quarter of fiscal year 2019, we issued 74 thousand shares of our common stock upon settlement of \$2 million in principal amount of Convertible Notes submitted for conversion. In connection with these conversions, we exercised a portion of our Note Hedges to acquire an equal number of shares of our common stock. The counterparty to the Note Hedges may be deemed an “affiliated purchaser” and may have purchased the shares of our common stock deliverable to us upon this exercise of our option. Refer to Note 12 of the Notes to Condensed Consolidated Financial Statements for further discussion regarding the Convertible Notes and the Note Hedges.

Restricted Stock Unit Share Withholding

We also withhold common stock shares associated with net share settlements to cover tax withholding obligations upon the vesting of restricted stock unit awards under our employee equity incentive program. During the first quarter of fiscal year 2019, we withheld approximately 2 million shares at a total cost of \$449 million through net share settlements. Refer to Note 3 of the Notes to Condensed Consolidated Financial Statements for further discussion regarding our equity incentive plans.

ITEM 6. EXHIBITS

| Exhibit No. | Exhibit Description | Schedule /Form | File Number | Exhibit | Filing Date |
|-------------|---|----------------|-------------|---------|-------------|
| 10.1+ | <u>Variable Compensation Plan - Fiscal Year 2019</u> | 8-K | 000-23985 | 10.1 | 3/13/2018 |
| 10.2*+ | <u>Amended and Restated 2007 Equity Incentive Plan - Restricted Stock Unit Grant Notice and Restricted Stock Unit Agreement & Performance-Based Restricted Stock Unit Grant Notice and Performance-Based Restricted Stock Unit Agreement (2018)</u> | | | | |
| 10.3+ | <u>Amended and Restated 2007 Equity Incentive Plan</u> | 8-K | 000-23985 | 10.1 | 5/21/2018 |
| 10.4+ | <u>Amended and Restated 2012 Employee Stock Purchase Plan</u> | 8-K | 000-23985 | 10.2 | 5/21/2018 |
| 31.1* | <u>Certification of Chief Executive Officer as required by Rule 13a-14(a) of the Securities Exchange Act of 1934</u> | | | | |
| 31.2* | <u>Certification of Chief Financial Officer as required by Rule 13a-14(a) of the Securities Exchange Act of 1934</u> | | | | |
| 32.1#* | <u>Certification of Chief Executive Officer as required by Rule 13a-14(b) of the Securities Exchange Act of 1934</u> | | | | |
| 32.2#* | <u>Certification of Chief Financial Officer as required by Rule 13a-14(b) of the Securities Exchange Act of 1934</u> | | | | |
| 101.INS* | XBRL Instance Document | | | | |
| 101.SCH* | XBRL Taxonomy Extension Schema Document | | | | |
| 101.CAL* | XBRL Taxonomy Extension Calculation Linkbase Document | | | | |
| 101.LAB* | XBRL Taxonomy Extension Labels Linkbase Document | | | | |
| 101.PRE* | XBRL Taxonomy Extension Presentation Linkbase Document | | | | |

* Filed herewith

+ Management contract or compensatory plan or arrangement

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

Copies of above exhibits not contained herein are available to any shareholder upon written request to:
Investor Relations: NVIDIA Corporation, 2788 San Tomas Expressway, Santa Clara, CA 95051.

SIGNATURE

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

Date: May 22, 2018

NVIDIA Corporation

By: /s/ Colette M. Kress

Colette M. Kress
Executive Vice
President and Chief
Financial Officer
(Duly Authorized
Officer and Principal
Financial Officer)