

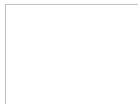
UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

**FORM 10-Q**

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the quarterly period ended October 27, 2019

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
Commission file number: 0-23985



**NVIDIA CORPORATION**

(Exact name of registrant as specified in its charter)

Delaware  
(State or Other Jurisdiction of  
Incorporation or Organization)

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

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)

**Securities registered pursuant to Section 12(b) of the Act:**

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, \$0.001 par value per share	NVDA	The Nasdaq Global Select Market

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 every Interactive Data File required to be submitted 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 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 ☐

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 November 8, 2019, was 612 million.

**NVIDIA CORPORATION**  
**FORM 10-Q**  
**FOR THE QUARTER ENDED October 27, 2019**

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**WHERE YOU CAN FIND MORE INFORMATION**

Investors and others should note that we announce material financial information to our investors using our investor relations website, press releases, SEC filings and public conference calls and webcasts. We also use the following social media channels as a means of disclosing information about the company, our 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>)

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

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		Nine Months Ended	
	October 27, 2019	October 28, 2018	October 27, 2019	October 28, 2018
Revenue	\$ 3,014	\$ 3,181	\$ 7,813	\$ 9,511
Cost of revenue	1,098	1,260	3,060	3,547
Gross profit	1,916	1,921	4,753	5,964
Operating expenses				
Research and development	712	605	2,091	1,729
Sales, general and administrative	277	258	806	725
Total operating expenses	989	863	2,897	2,454
Income from operations	927	1,058	1,856	3,510
Interest income	45	37	137	94
Interest expense	(13)	(15)	(39)	(44)
Other, net	—	1	—	12
Total other income (expense)	32	23	98	62
Income before income tax	959	1,081	1,954	3,572
Income tax expense (benefit)	60	(149)	109	(3)
Net income	\$ 899	\$ 1,230	\$ 1,845	\$ 3,575
Net income per share:				
Basic	\$ 1.47	\$ 2.02	\$ 3.03	\$ 5.88
Diluted	\$ 1.45	\$ 1.97	\$ 2.99	\$ 5.71
Weighted average shares used in per share computation:				
Basic	610	609	609	608
Diluted	618	625	617	626

See accompanying Notes to Condensed Consolidated Financial Statements.

**NVIDIA CORPORATION AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
(In millions)  
(Unaudited)

	Three Months Ended		Nine Months Ended	
	October 27, 2019	October 28, 2018	October 27, 2019	October 28, 2018
Net income	\$ 899	\$ 1,230	\$ 1,845	\$ 3,575
Other comprehensive income (loss), net of tax				
Available-for-sale securities:				
Net change in unrealized gain	—	3	9	6
Reclassification adjustments for net realized gain included in net income	—	—	—	1
Net change in unrealized gain	—	3	9	7
Cash flow hedges:				
Net unrealized gain (loss)	—	1	4	(7)
Reclassification adjustments for net realized loss included in net income	(2)	(5)	(4)	(6)
Net change in unrealized loss	(2)	(4)	—	(13)
Other comprehensive income (loss), net of tax	(2)	(1)	9	(6)
Total comprehensive income	\$ 897	\$ 1,229	\$ 1,854	\$ 3,569

See accompanying Notes to Condensed Consolidated Financial Statements.

**NVIDIA CORPORATION AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
(In millions)  
(Unaudited)

	October 27, 2019	January 27, 2019
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 9,765	\$ 782
Marketable securities	4	6,640
Accounts receivable, net	1,455	1,424
Inventories	1,047	1,575
Prepaid expenses and other current assets	149	136
Total current assets	12,420	10,557
Property and equipment, net	1,517	1,404
Operating lease assets	527	—
Goodwill	618	618
Intangible assets, net	43	45
Deferred income tax assets	569	560
Other assets	116	108
Total assets	<u>\$ 15,810</u>	<u>\$ 13,292</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 591	\$ 511
Accrued and other current liabilities	884	818
Total current liabilities	1,475	1,329
Long-term debt	1,990	1,988
Long-term operating lease liabilities	469	—
Other long-term liabilities	662	633
Total liabilities	4,596	3,950
Commitments and contingencies - see Note 13		
Shareholders' equity:		
Preferred stock	—	—
Common stock	1	1
Additional paid-in capital	6,824	6,051
Treasury stock, at cost	(9,726)	(9,263)
Accumulated other comprehensive loss	(3)	(12)
Retained earnings	14,118	12,565
Total shareholders' equity	11,214	9,342
Total liabilities and shareholders' equity	<u>\$ 15,810</u>	<u>\$ 13,292</u>

See accompanying Notes to Condensed Consolidated Financial Statements.

**NVIDIA CORPORATION AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY**  
**FOR THE THREE MONTHS ENDED OCTOBER 27, 2019 AND OCTOBER 28, 2018**  
**(Unaudited)**

(In millions, except per share data)	Common Stock Outstanding		Additional Paid-in Capital	Treasury Stock	Accumulated Other Comprehensive Loss	Retained Earnings	Total Shareholders' Equity
	Shares	Amount					
Balances, July 28, 2019	609	\$ 1	\$ 6,543	\$ (9,524)	\$ (1)	\$ 13,317	\$ 10,336
Other comprehensive loss	—	—	—	—	(2)	—	(2)
Net income	—	—	—	—	—	899	899
Issuance of common stock from stock plans	4	—	63	—	—	—	63
Tax withholding related to vesting of restricted stock units	(1)	—	—	(202)	—	—	(202)
Cash dividends declared and paid (\$0.16 per common share)	—	—	—	—	—	(98)	(98)
Stock-based compensation	—	—	218	—	—	—	218
Balances, October 27, 2019	612	\$ 1	\$ 6,824	\$ (9,726)	\$ (3)	\$ 14,118	\$ 11,214
Balances, July 29, 2018	608	\$ 1	\$ 5,681	\$ (7,821)	\$ (23)	\$ 10,957	\$ 8,795
Other comprehensive loss	—	—	—	—	(1)	—	(1)
Net income	—	—	—	—	—	1,230	1,230
Convertible debt conversion	1	—	—	—	—	—	—
Issuance of common stock from stock plans	6	—	65	—	—	—	65
Tax withholding related to vesting of restricted stock units	(2)	—	—	(467)	—	—	(467)
Share repurchase	(1)	—	—	(200)	—	—	(200)
Exercise of convertible note hedges	(1)	—	1	(1)	—	—	—
Cash dividends declared and paid (\$0.15 per common share)	—	—	—	—	—	(91)	(91)
Stock-based compensation	—	—	144	—	—	—	144
Balances, October 28, 2018	611	\$ 1	\$ 5,891	\$ (8,489)	\$ (24)	\$ 12,096	\$ 9,475

See accompanying Notes to Condensed Consolidated Financial Statements.

**NVIDIA CORPORATION AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY**  
**FOR THE NINE MONTHS ENDED OCTOBER 27, 2019 AND OCTOBER 28, 2018**  
**(Unaudited)**

(In millions, except per share data)	Common Stock Outstanding		Additional Paid-in Capital	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total Shareholders' Equity
	Shares	Amount					
Balances, January 27, 2019	606	\$ 1	\$ 6,051	\$ (9,263)	\$ (12)	\$ 12,565	\$ 9,342
Other comprehensive income	—	—	—	—	9	—	9
Net income	—	—	—	—	—	1,845	1,845
Issuance of common stock from stock plans	9	—	146	—	—	—	146
Tax withholding related to vesting of restricted stock units	(3)	—	—	(463)	—	—	(463)
Cash dividends declared and paid (\$0.48 per common share)	—	—	—	—	—	(292)	(292)
Stock-based compensation	—	—	627	—	—	—	627
Balances, October 27, 2019	612	\$ 1	\$ 6,824	\$ (9,726)	\$ (3)	\$ 14,118	\$ 11,214
Balances, January 28, 2018	606	\$ 1	\$ 5,351	\$ (6,650)	\$ (18)	\$ 8,787	\$ 7,471
Retained earnings adjustment due to adoption of new revenue accounting standard	—	—	—	—	—	8	8
Other comprehensive loss	—	—	—	—	(6)	—	(6)
Net income	—	—	—	—	—	3,575	3,575
Convertible debt conversion	1	—	—	—	—	—	—
Issuance of common stock from stock plans	13	—	134	—	—	—	134
Tax withholding related to vesting of restricted stock units	(4)	—	—	(982)	—	—	(982)
Share repurchase	(4)	—	—	(855)	—	—	(855)
Exercise of convertible note hedges	(1)	—	2	(2)	—	—	—
Cash dividends declared and paid (\$0.45 per common share)	—	—	—	—	—	(274)	(274)
Stock-based compensation	—	—	404	—	—	—	404
Balances, October 28, 2018	611	\$ 1	\$ 5,891	\$ (8,489)	\$ (24)	\$ 12,096	\$ 9,475

See accompanying Notes to Condensed Consolidated Financial Statements.

**NVIDIA CORPORATION AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(In millions)  
(Unaudited)

	Nine Months Ended	
	October 27, 2019	October 28, 2018
Cash flows from operating activities:		
Net income	\$ 1,845	\$ 3,575
Adjustments to reconcile net income to net cash provided by operating activities:		
Stock-based compensation expense	624	400
Depreciation and amortization	275	184
Deferred income taxes	(5)	30
Other	5	(35)
Changes in operating assets and liabilities:		
Accounts receivable	(32)	(943)
Inventories	531	(620)
Prepaid expenses and other assets	55	(68)
Accounts payable	91	224
Accrued and other current liabilities	(103)	147
Other long-term liabilities	10	(49)
Net cash provided by operating activities	3,296	2,845
Cash flows from investing activities:		
Proceeds from maturities of marketable securities	4,744	6,267
Proceeds from sales of marketable securities	3,363	114
Purchases of marketable securities	(1,461)	(10,112)
Purchases of property and equipment and intangible assets	(344)	(397)
Investment in non-affiliates	(6)	(9)
Net cash provided by (used in) investing activities	6,296	(4,137)
Cash flows from financing activities:		
Proceeds related to employee stock plans	146	135
Payments related to tax on restricted stock units	(463)	(982)
Dividends paid	(292)	(273)
Payments related to repurchases of common stock	—	(855)
Repayment of Convertible Notes	—	(12)
Other	—	(2)
Net cash used in financing activities	(609)	(1,989)
Change in cash and cash equivalents	8,983	(3,281)
Cash and cash equivalents at beginning of period	782	4,002
Cash and cash equivalents at end of period	\$ 9,765	\$ 721
Other non-cash investing activity:		
Assets acquired by assuming related liabilities	\$ 87	\$ 98

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 27, 2019 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 27, 2019, 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 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 27, 2019.

### **Significant Accounting Policies**

Except for adopting a new accounting standard related to leases, 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 27, 2019.

### **Leases**

We determine if an arrangement is or contains a lease at inception. Operating leases with lease terms of more than 12 months are included in operating lease assets, accrued and other current liabilities, and long-term operating lease liabilities on our consolidated balance sheet. Operating lease assets represent our right to use an underlying asset for the lease term and lease liabilities represent our obligation to make lease payments over the lease term.

Operating lease assets and liabilities are recognized based on the present value of the remaining lease payments discounted using our incremental borrowing rate. Operating lease assets also include initial direct costs incurred and prepaid lease payments, minus any lease incentives. Our lease terms include options to extend or terminate the lease when it is reasonably certain that we will exercise that option. Lease expense is recognized on a straight-line basis over the lease term.

We combine the lease and non-lease components in determining the operating lease assets and liabilities.

Refer to Note 3 of these Notes to Condensed Consolidated Financial Statements for additional information.

### **Fiscal Year**

We operate on a 52- or 53-week year, ending on the last Sunday in January. Fiscal years 2020 and 2019 are both 52-week years. The third quarters of fiscal years 2020 and 2019 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 on-going basis, we evaluate our estimates, including those related to revenue recognition, cash equivalents and marketable securities, accounts receivable, inventories, income taxes, goodwill, stock-based compensation, litigation, investigation and settlement costs, restructuring and other charges, and

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

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 Pronouncement**

The Financial Accounting Standards Board, or FASB, issued an accounting standards update regarding the accounting for leases under which lease assets and liabilities are recognized on the balance sheet. We adopted this guidance on January 28, 2019 using the optional transition method by recognizing a cumulative-effect adjustment to the consolidated balance sheet. Refer to Note 3 of these Notes to Condensed Consolidated Financial Statements for additional information.

**Recent Accounting Pronouncement Not Yet Adopted**

In June 2016, the FASB issued a new accounting standard to replace the incurred loss impairment methodology under current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. We will be required to use a forward-looking expected credit loss model for accounts receivable and other financial instruments, including available-for-sale debt securities. We expect to adopt the standard using the modified retrospective transition method beginning in the first quarter of fiscal year 2021. While we are still evaluating the impact of this standard on our Consolidated Financial Statements, we do not currently believe it will have a material impact upon adoption.

**Note 2 - Acquisition of Mellanox Technologies, Ltd.**

On March 10, 2019, we entered into an Agreement and Plan of Merger, or the Merger Agreement, with Mellanox Technologies Ltd., or Mellanox, pursuant to which we will acquire all of the issued and outstanding common shares of Mellanox for \$125 per share in cash, representing a total enterprise value of approximately \$6.9 billion as of the date of the Merger Agreement. In June 2019, Mellanox shareholders approved the acquisition. The closing of the acquisition is subject to approval by regulatory agencies. If the Merger Agreement is terminated under certain circumstances involving the failure to obtain the required regulatory approvals, we could be obligated to pay Mellanox a termination fee of \$350 million. We have received regulatory approval in the United States and Mexico and are engaged with regulators in Europe and China. Although discussions with the European Union and China regulatory bodies are progressing and closing the acquisition is possible by the end of this calendar year, we believe the closing will likely occur in the early part of calendar 2020.

**Note 3 - New Lease Accounting Standard**

**Method and Impact of Adoption**

On January 28, 2019, we adopted the new lease accounting standard using the optional transition method by recognizing a cumulative-effect adjustment to the consolidated balance sheet and not adjusting comparative information for prior periods. In addition, we elected the package of practical expedients permitted under the transition guidance, which allowed us not to reassess (1) whether any expired or existing contracts are or contain leases, (2) lease classification for any expired or existing leases, and (3) initial direct costs for any existing leases.

The cumulative-effect adjustment upon adoption of the new lease accounting standard resulted in the recognition of \$ 470 million of operating lease assets and \$500 million of operating lease liabilities on our Consolidated Balance Sheet. The difference of \$ 30 million represents deferred rent for leases that existed as of the date of adoption, which was an offset to the opening balance of operating lease assets.

**Lease Obligations**

Our lease obligations consist of operating leases for our headquarters complex, domestic and international office facilities, and data center space, with lease periods expiring between fiscal years 2020 and 2035.

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

Future minimum lease payments under our non-cancelable operating leases as of October 27, 2019, are as follows:

	<b>Operating Lease Obligations</b>
	<i>(In millions)</i>
<b>Fiscal Year:</b>	
2020 (excluding first nine months of fiscal year 2020)	\$ 28
2021	112
2022	104
2023	83
2024	60
2025 and thereafter	282
Total	669
Less imputed interest	111
Present value of net future minimum lease payments	558
Less short-term operating lease liabilities	89
Long-term operating lease liabilities	\$ 469

In addition to our existing operating lease obligations, we have entered into an operating lease that will commence in fiscal year 2021 with a lease term of 7 years for \$62 million.

Future minimum lease payments under our non-cancelable operating leases as of January 27, 2019, based on the previous lease accounting standard, are as follows:

	<b>Lease Obligations</b>
	<i>(In millions)</i>
<b>Fiscal Year:</b>	
2020	\$ 100
2021	97
2022	90
2023	77
2024	54
2025 and thereafter	265
Total	\$ 683

Operating lease expense for the third quarter and first nine months of fiscal year 2020 was \$28 million and \$83 million, respectively. Operating lease expense for the third quarter and first nine months of fiscal year 2019 was \$22 million and \$58 million, respectively. Short-term and variable lease expenses for the third quarter and first nine months of fiscal year 2020 were not significant.

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

Other information related to leases was as follows:

	<b>Three Months Ended</b>	<b>Nine Months Ended</b>
	<b>October 27, 2019</b>	<b>October 27, 2019</b>
	<i>(In millions)</i>	
<b>Supplemental cash flows information</b>		
Operating cash flows used for operating leases	\$ 28	\$ 78
Operating lease assets obtained in exchange for lease obligations	\$ 14	\$ 122

As of October 27, 2019, our operating leases had a weighted average remaining lease term of 8.5 years and a weighted average discount rate of 3.68%.

#### Note 4 - Stock-Based Compensation

Our stock-based compensation expense is associated with 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 allocated to inventory, as follows:

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>October 27, 2019</b>	<b>October 28, 2018</b>	<b>October 27, 2019</b>	<b>October 28, 2018</b>
	<i>(In millions)</i>			
Cost of revenue	\$ 15	\$ 5	\$ 27	\$ 21
Research and development	141	88	400	237
Sales, general and administrative	67	47	197	142
Total	<u>\$ 223</u>	<u>\$ 140</u>	<u>\$ 624</u>	<u>\$ 400</u>

#### Equity Award Activity

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

	<b>RSUs, PSUs, and Market-based PSUs Outstanding</b>	
	<b>Number of Shares</b>	<b>Weighted Average Grant-Date Fair Value Per Share</b>
	<i>(In millions, except per share data)</i>	
Balances, January 27, 2019	16	\$ 129.92
Granted (1) (2)	7	\$ 182.62
Vested restricted stock	(7)	\$ 85.22
Canceled and forfeited	(1)	\$ 186.34
Balances, October 27, 2019	<u>15</u>	<u>\$ 173.01</u>

- (1) Includes the number of PSUs granted that will be issued and eligible to vest if the maximum corporate financial performance goal for fiscal year 2020 is achieved. Depending on the actual level of the corporate performance achievement at the end of fiscal year 2020, the PSUs issued could be up to 0.4 million shares.
- (2) Includes the number of market-based PSUs granted 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 to those of the companies comprising the Standard & Poor's 500 Index during that period, the market-based PSUs issued could be up to 60 thousand shares.

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

As of October 27, 2019, there was \$1.95 billion of aggregate unearned stock-based compensation expense, net of forfeitures. This amount is expected to be recognized over a weighted average period of 2.6 years for RSUs, PSUs, and market-based PSUs, and 1.0 year for ESPP.

**Note 5 – 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		Nine Months Ended	
	October 27, 2019	October 28, 2018	October 27, 2019	October 28, 2018
<i>(In millions, except per share data)</i>				
Numerator:				
Net income	\$ 899	\$ 1,230	\$ 1,845	\$ 3,575
Denominator:				
Basic weighted average shares	610	609	609	608
Dilutive impact of outstanding equity awards	8	16	8	18
Diluted weighted average shares	618	625	617	626
Net income per share:				
Basic (1)	\$ 1.47	\$ 2.02	\$ 3.03	\$ 5.88
Diluted (2)	\$ 1.45	\$ 1.97	\$ 2.99	\$ 5.71
Equity awards excluded from diluted net income per share because their effect would have been anti-dilutive	5	3	11	4

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

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

**Note 6 – Income Taxes**

We recognized an income tax expense of \$60 million and \$109 million for the third quarter and first nine months of fiscal year 2020, respectively, and an income tax benefit of \$149 million and \$3 million for the third quarter and first nine months of fiscal year 2019, respectively. The income tax expense as a percentage of income before income tax was 6.3% and 5.6% for the third quarter and first nine months of fiscal year 2020, respectively, and income tax benefit as a percentage of income before income tax was 13.8% and nominal for the third quarter and first nine months of fiscal year 2019, respectively.

The increase in our effective tax rate for the third quarter and first nine months of fiscal year 2020 as compared to the third quarter and first nine months of fiscal year 2019 was primarily due to a decrease of tax benefits from stock-based compensation and an absence of the tax benefit related to the reduction in our provisional U.S. tax reform transition tax amount.

Our effective tax rates for the first nine months of fiscal years 2020 and 2019 were 5.6% and nominal, respectively, and were lower than the U.S. federal statutory rate of 21% due to income earned in jurisdictions that are subject to taxes lower than the U.S. federal statutory tax rate, tax benefits related to stock-based compensation, the benefit of the U.S. federal research tax credit, and for fiscal year 2019, the reduction in our provisional U.S. tax reform transition tax amount.

For the first nine months of fiscal year 2020, 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 27, 2019.

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

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resolved with the respective tax authorities. As of October 27, 2019, 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 7 - Marketable Securities**

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 October 27, 2019 and January 27, 2019:

October 27, 2019						
	Amortized Cost	Unrealized Gain	Unrealized Loss	Estimated Fair Value	Reported as	
					Cash Equivalents	Marketable Securities
(In millions)						
Debt securities issued by the United States Treasury	\$ 5,883	\$ —	\$ —	\$ 5,883	\$ 5,883	\$ —
Corporate debt securities	1,293	—	—	1,293	1,293	—
Debt securities of United States government agencies	1,204	—	—	1,204	1,204	—
Money market funds	1,070	—	—	1,070	1,070	—
Foreign government debt securities	178	—	—	178	178	—
Certificates of deposit	25	—	—	25	25	—
Asset-backed securities	4	—	—	4	—	4
Total	\$ 9,657	\$ —	\$ —	\$ 9,657	\$ 9,653	\$ 4

January 27, 2019						
	Amortized Cost	Unrealized Gain	Unrealized Loss	Estimated Fair Value	Reported as	
					Cash Equivalents	Marketable Securities
(In millions)						
Corporate debt securities	\$ 2,626	\$ —	\$ (6)	\$ 2,620	\$ 25	\$ 2,595
Debt securities of United States government agencies	2,284	—	(4)	2,280	—	2,280
Debt securities issued by the United States Treasury	1,493	—	(1)	1,492	176	1,316
Money market funds	483	—	—	483	483	—
Foreign government debt securities	209	—	—	209	—	209
Asset-backed securities	152	—	(1)	151	—	151
Mortgage-backed securities issued by United States government-sponsored enterprises	88	1	—	89	—	89
Total	\$ 7,335	\$ 1	\$ (12)	\$ 7,324	\$ 684	\$ 6,640

For the third quarter and first nine months of fiscal years 2020 and 2019, 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 October 27, 2019 and January 27, 2019 are shown below by contractual maturity.

	October 27, 2019		January 27, 2019	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
<i>(In millions)</i>				
Less than 1 year	\$ 9,657	\$ 9,657	\$ 5,042	\$ 5,034
Due in 1 - 5 years	—	—	2,271	2,268
Mortgage-backed securities issued by United States government-sponsored enterprises not due at a single maturity date	—	—	22	22
Total	<u>\$ 9,657</u>	<u>\$ 9,657</u>	<u>\$ 7,335</u>	<u>\$ 7,324</u>

**Note 8 – 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.

Pricing Category	Fair Value at	
	October 27, 2019	January 27, 2019
<i>(In millions)</i>		

**Assets**

## Cash equivalents and marketable securities:

Debt securities issued by the United States Treasury	Level 2	\$	5,883	\$	1,492
Corporate debt securities	Level 2	\$	1,293	\$	2,620
Debt securities of United States government agencies	Level 2	\$	1,204	\$	2,280
Money market funds	Level 1	\$	1,070	\$	483
Foreign government debt securities	Level 2	\$	178	\$	209
Certificates of deposit	Level 2	\$	25	\$	—
Asset-backed securities	Level 2	\$	4	\$	151
Mortgage-backed securities issued by United States government-sponsored enterprises	Level 2	\$	—	\$	89

**Liabilities**

## Other noncurrent liabilities:

2.20% Notes Due 2021 (1)	Level 2	\$	1,003	\$	978
3.20% Notes Due 2026 (1)	Level 2	\$	1,051	\$	961

(1) These liabilities are carried on our Consolidated Balance Sheets at their original issuance value, net of unamortized 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.

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**Note 9 - Amortizable Intangible Assets**

The components of our amortizable intangible assets are as follows:

	October 27, 2019			January 27, 2019		
	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	\$ (191)	\$ 4	\$ 195	\$ (188)	\$ 7
Patents and licensed technology	508	(469)	39	491	(453)	38
Total intangible assets	<u>\$ 703</u>	<u>\$ (660)</u>	<u>\$ 43</u>	<u>\$ 686</u>	<u>\$ (641)</u>	<u>\$ 45</u>

The increase in gross carrying amount of intangible assets is due to purchases of licensed technology during the first nine months of fiscal year 2020. Amortization expense associated with intangible assets was \$6 million and \$19 million for the third quarter and first nine months of fiscal year 2020, respectively, and \$7 million and \$24 million for the third quarter and first nine months of fiscal year 2019, respectively. Future amortization expense related to the net carrying amount of intangible assets as of October 27, 2019 is estimated to be \$6 million for the remainder of fiscal year 2020, \$16 million in fiscal year 2021, \$9 million in fiscal year 2022, \$7 million in fiscal year 2023, and \$5 million in fiscal year 2024.

**Note 10 - Balance Sheet Components**

Certain balance sheet components are as follows:

	October 27, 2019	January 27, 2019
	(In millions)	
<b>Inventories:</b>		
Raw materials	\$ 255	\$ 613
Work in-process	265	238
Finished goods	527	724
Total inventories	<u>\$ 1,047</u>	<u>\$ 1,575</u>

	October 27, 2019	January 27, 2019
	(In millions)	
<b>Accrued and Other Current Liabilities:</b>		
Customer program accruals	\$ 353	\$ 302
Accrued payroll and related expenses	155	186
Deferred revenue (1)	119	92
Operating lease liabilities	89	—
Taxes payable	52	91
Licenses payable	18	12
Professional service fee	18	14
Other	80	121
Total accrued and other current liabilities	<u>\$ 884</u>	<u>\$ 818</u>

(1) Deferred revenue primarily includes customer advances and deferrals related to license and development arrangements and post contract customer support, or PCS.



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	October 27, 2019	January 27, 2019
	(In millions)	
<b>Other Long-Term Liabilities:</b>		
Income tax payable (1)	\$ 511	\$ 513
Deferred revenue (2)	57	46
Deferred income tax liability	25	19
Licenses payable	22	1
Employee benefits liability	22	20
Deferred rent	—	21
Other	25	13
Total other long-term liabilities	<u>\$ 662</u>	<u>\$ 633</u>

(1) As of October 27, 2019, represents the long-term portion of the one-time transition tax payable of \$317 million, as well as unrecognized tax benefits of \$168 million and related interest and penalties of \$26 million.

(2) Deferred revenue primarily includes deferrals related to PCS.

### Deferred Revenue

The following table shows the changes in deferred revenue during the first nine months of fiscal years 2020 and 2019.

	October 27, 2019	October 28, 2018
	(In millions)	
Balance, January 27, 2019	\$ 138	\$ 63
Deferred revenue added during the period	237	271
Revenue recognized during the period	(199)	(214)
Balance, October 27, 2019	<u>\$ 176</u>	<u>\$ 120</u>

### Note 11 - Derivative Financial Instruments

We enter into foreign currency forward contracts to mitigate the impact of foreign currency exchange rate movements on our operating expenses. These contracts are designated as cash flow hedges for hedge accounting treatment. 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 October 27, 2019 and January 27, 2019.

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 October 27, 2019 and January 27, 2019:

	October 27, 2019	January 27, 2019
	(In millions)	
Designated as cash flow hedges	\$ 421	\$ 408
Not designated for hedge accounting	\$ 258	\$ 241

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As of October 27, 2019, all designated foreign currency forward contracts mature within eighteen months. The expected realized gains and losses deferred into accumulated other comprehensive income (loss) related to foreign currency forward contracts within the next twelve months was not significant.

During the third quarter and first nine months of fiscal years 2020 and 2019, 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.

## 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. 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 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	October 27, 2019	January 27, 2019
<i>(In millions)</i>				
2.20% Notes Due 2021	1.9	2.38%	\$ 1,000	\$ 1,000
3.20% Notes Due 2026	6.9	3.31%	1,000	1,000
Unamortized debt discount and issuance costs			(10)	(12)
Net carrying amount			<u>\$ 1,990</u>	<u>\$ 1,988</u>

### Revolving Credit Facility

We have a Credit Agreement under which we may borrow up to \$575 million for general corporate purposes and can obtain revolving loan commitments up to \$425 million. As of October 27, 2019, we had not borrowed any amounts under this agreement.

### Commercial Paper

We have a \$575 million commercial paper program to support general corporate purposes. As of October 27, 2019, we had not issued any commercial paper.

## Note 13 - Commitments and Contingencies

### Purchase Obligations

As of October 27, 2019, we had outstanding inventory purchase obligations totaling \$980 million and other purchase obligations totaling \$138 million.

### Performance Obligations

Revenue related to remaining performance obligations represents the amount of contracted license and development arrangements and PCS that has not been recognized. As of October 27, 2019, the amount of our remaining performance

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obligations that has not been recognized as revenue was \$395 million, of which we expect to recognize approximately 47% 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.

**Accrual for Product Warranty Liabilities**

The estimated amount of product returns and warranty liabilities was \$17 million and \$18 million as of October 27, 2019 and January 27, 2019, respectively, and the activity related to the warranty liabilities were not significant.

In connection with certain agreements that we have entered in the past, we have provided indemnification 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.

**Litigation**

**Securities Class Action and Derivative Lawsuits**

On December 21, 2018, a purported securities class action lawsuit was filed in the United States District Court for the Northern District of California, captioned Iron Workers Joint Funds v. Nvidia Corporation, et al. (Case No. 18-cv-7669), naming as defendants NVIDIA and certain of NVIDIA's officers. On December 28, 2018, a substantially similar purported securities class action was commenced in the Northern District of California, captioned Oto v. Nvidia Corporation, et al. (Case No. 18-cv-07783), naming the same defendants, and seeking substantially similar relief. On February 19, 2019, a number of shareholders filed motions to consolidate the two cases and to be appointed lead plaintiff and for their respective counsel to be appointed lead counsel. On March 12, 2019, the two cases were consolidated under case number 4:18-cv-07669-HSG and titled In Re NVIDIA Corporation Securities Litigation. On May 2, 2019, the Court appointed lead plaintiffs and lead counsel. On June 21, 2019, the lead plaintiffs filed a consolidated class action complaint. The consolidated complaint asserts that the defendants violated Section 10(b) of the Securities Exchange Act of 1934, as amended, or the Exchange Act, and SEC Rule 10b-5, by making materially false or misleading statements related to channel inventory and the impact of cryptocurrency mining on GPU demand between May 10, 2017 and November 14, 2018. The plaintiffs also allege that the NVIDIA executives who they named as defendants violated Section 20(a) of the Exchange Act. The plaintiffs seek class certification, an award of unspecified compensatory damages, an award of reasonable costs and expenses, including attorneys' fees and expert fees, and further relief as the Court may deem just and proper. On August 2, 2019, NVIDIA moved to dismiss the consolidated class action complaint on the basis that plaintiffs failed to state any claims for violations of the securities laws by NVIDIA or the named defendants.

On January 18, 2019, a shareholder, purporting to act on behalf of NVIDIA, filed a derivative lawsuit in the Northern District of California, captioned Han v. Huang, et al. (Case No. 19-cv-00341), seeking to assert claims on behalf of NVIDIA against the members of NVIDIA's board of directors and certain officers. The lawsuit asserts claims for breach of fiduciary duty, unjust enrichment, waste of corporate assets, and violations of Sections 14(a), 10(b), and 20(a) of the Exchange Act based on the dissemination of allegedly false and misleading statements related to channel inventory and the impact of cryptocurrency mining on GPU demand. The plaintiff is seeking unspecified damages and other relief, including reforms and improvements to NVIDIA's corporate governance and internal procedures. On February 12, 2019, a substantially similar derivative lawsuit was filed in the Northern District of California captioned Yang v. Huang, et. al. (Case No. 19-cv-00766), naming the same named defendants, and seeking the same relief. On February 19, 2019, a third substantially similar derivative lawsuit was filed in the Northern District of California captioned The Booth Family Trust v. Huang, et. al. (Case No. 3:19-cv-00876), naming the same named defendants, and seeking substantially the same relief. On March 12, 2019, the three derivative actions were consolidated under case number 4:19-cv-00341-HSG, and titled In re NVIDIA Corporation Consolidated Derivative Litigation. The parties stipulated to stay the In Re NVIDIA Corporation Consolidated Derivative Litigation pending resolution of any motion to dismiss that NVIDIA may file in the In Re NVIDIA Corporation Securities Litigation.

On September 24, 2019, two shareholders, purporting to act on behalf of NVIDIA, filed two identical lawsuits in the District of Delaware. One is captioned Lipchitz v. Huang, et al. (Case No. 1:19-cv-01795-UNA) and the other is captioned Nelson v. Huang, et. al. (Case No. 1:19-cv-01798-UNA). The lawsuits assert claims for breach of fiduciary duty, unjust enrichment, insider trading, misappropriation of information, corporate waste and violations of Sections 14(a), 10(b), and 20(a) of the Exchange Act based on the dissemination of allegedly false, and misleading statements related to channel inventory and

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the impact of cryptocurrency mining on GPU demand. The plaintiffs seek unspecified damages and other relief, including disgorgement of profits from the sale of NVIDIA stock and unspecified corporate governance measures.

It is possible that additional suits will be filed, or allegations received from shareholders, with respect to these same or other matters, naming NVIDIA and/or its officers and directors as defendants.

**Litigation Related to Acquisition of Mellanox**

On May 3, 2019, an alleged stockholder of Mellanox filed a putative class action lawsuit alleging that the proxy statement filed by Mellanox in connection with the stockholder vote on NVIDIA's pending acquisition of Mellanox violates Sections 14(a) and 20(a) of the Exchange Act and asserting claims under those statutes against Mellanox and its board of directors as well as NVIDIA. The complaint, which is captioned Stein v. Mellanox Technologies, Ltd., et al., Case No. 19-2428 (United States District Court, Northern District of California), seeks declaratory and injunctive relief and unspecified damages. A number of other alleged Mellanox stockholders have filed substantially similar lawsuits against Mellanox and its directors in the United States District Court for the Northern District of California and in the United States District Court for the Southern District of New York, but NVIDIA was not named as a defendant in any of these other lawsuits. As of October 14, 2019, all stockholder lawsuits relating to NVIDIA's pending acquisition of Mellanox, including the Stein lawsuit, had been voluntarily dismissed by the respective plaintiffs.

**Accounting for Loss Contingencies**

We are engaged in legal actions not described above arising in the ordinary course of 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. As of October 27, 2019, 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, except as specifically described above, any possible loss or range of loss in these matters cannot be reasonably estimated at this time.

**Note 14 - Shareholders' Equity**

**Capital Return Program**

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

During the third quarter and first nine months of fiscal year 2020, we paid \$98 million and \$292 million, respectively, in cash dividends to our shareholders.

Through October 27, 2019, we have repurchased an aggregate of 260 million shares under our share repurchase program for a total cost of \$7.08 billion. All shares delivered from these repurchases have been placed into treasury stock. As of October 27, 2019, we were authorized, subject to certain specifications, to repurchase additional shares of our common stock up to \$7.24 billion through December 2022.

**Preferred Stock**

As of October 27, 2019 and January 27, 2019, 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 architecture.

Our GPU product brands are aimed at specialized markets including GeForce for gamers; Quadro for designers; Tesla and DGX for artificial intelligence, data scientists and big data researchers; and GRID for cloud-based visual computing users.

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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 game consoles and mobile gaming and entertainment devices.

Under the single unifying 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 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 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 our consolidated financial statements. The table below presents details of our reportable segments and the “All Other” category.

	GPU	Tegra Processor	All Other	Consolidated
	(In millions)			
Three Months Ended October 27, 2019				
Revenue	\$ 2,565	\$ 449	\$ —	\$ 3,014
Depreciation and amortization expense	\$ 78	\$ 10	\$ 4	\$ 92
Operating income (loss)	\$ 1,135	\$ 85	\$ (293)	\$ 927
Three Months Ended October 28, 2018				
Revenue	\$ 2,774	\$ 407	\$ —	\$ 3,181
Depreciation and amortization expense	\$ 51	\$ 13	\$ 4	\$ 68
Operating income (loss)	\$ 1,214	\$ 72	\$ (228)	\$ 1,058
Nine Months Ended October 27, 2019				
Revenue	\$ 6,691	\$ 1,122	\$ —	\$ 7,813
Depreciation and amortization expense	\$ 230	\$ 34	\$ 11	\$ 275
Operating income (loss)	\$ 2,550	\$ 163	\$ (857)	\$ 1,856
Nine Months Ended October 28, 2018				
Revenue	\$ 8,195	\$ 1,316	\$ —	\$ 9,511
Depreciation and amortization expense	\$ 134	\$ 35	\$ 15	\$ 184
Operating income (loss)	\$ 3,867	\$ 266	\$ (623)	\$ 3,510

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	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>October 27, 2019</b>	<b>October 28, 2018</b>	<b>October 27, 2019</b>	<b>October 28, 2018</b>
	<i>(In millions)</i>			
<b>Reconciling items included in "All Other" category:</b>				
Stock-based compensation expense	\$ (223)	\$ (140)	\$ (624)	\$ (400)
Unallocated cost of revenue and operating expenses	(63)	(76)	(198)	(205)
Acquisition-related and other costs	(7)	3	(22)	(1)
Legal settlement costs	—	(15)	(13)	(17)
<b>Total</b>	<b>\$ (293)</b>	<b>\$ (228)</b>	<b>\$ (857)</b>	<b>\$ (623)</b>

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:

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>October 27, 2019</b>	<b>October 28, 2018</b>	<b>October 27, 2019</b>	<b>October 28, 2018</b>
	<i>(In millions)</i>			
<b>Revenue:</b>				
Taiwan	\$ 838	\$ 929	\$ 2,171	\$ 2,739
Other Asia Pacific	805	742	1,983	2,001
China (including Hong Kong)	758	704	1,894	2,218
United States	236	407	589	1,254
Europe	216	230	753	699
Other countries	161	169	423	600
<b>Total revenue</b>	<b>\$ 3,014</b>	<b>\$ 3,181</b>	<b>\$ 7,813</b>	<b>\$ 9,511</b>

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

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>October 27, 2019</b>	<b>October 28, 2018</b>	<b>October 27, 2019</b>	<b>October 28, 2018</b>
	<i>(In millions)</i>			
<b>Revenue:</b>				
Gaming	\$ 1,659	\$ 1,764	\$ 4,027	\$ 5,292
Professional Visualization	324	305	881	837
Data Center	726	792	2,015	2,253
Automotive	162	172	537	478
OEM and Other	143	148	353	651
<b>Total revenue</b>	<b>\$ 3,014</b>	<b>\$ 3,181</b>	<b>\$ 7,813</b>	<b>\$ 9,511</b>

One customer represented approximately 10% of our total revenue for the third quarter and approximately 11% of our total revenue for the first nine months of fiscal year 2020, and was attributable primarily to the GPU business. No customer represented 10% or more of total revenue for the third quarter and first nine months of fiscal year 2019.

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**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(Unaudited)**

One customer represented approximately 24% of our accounts receivable balance as of October 27, 2019, and one customer represented approximately 19% of our accounts receivable balance as of January 27, 2019.

## **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," "believe," "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.*

*NVIDIA, the NVIDIA logo, CUDA, CUDA-X AI, GeForce, GeForce GTX, GeForce NOW, GeForce RTX, NVIDIA DGX, NVIDIA DGX SuperPOD, NVIDIA DRIVE, NVIDIA DRIVE Constellation, NVIDIA Omniverse, NVIDIA RTX, NVIDIA SHIELD, Quadro, Quadro RTX, Tegra and Tesla are trademarks and/or registered trademarks of NVIDIA Corporation in the United States and/or other countries. Other company and product names may be trademarks of the respective companies with which they are associated. Features, pricing, availability, and specifications are subject to change without notice.*

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 27, 2019 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 designed, created, and marketed platforms that address four large markets where our expertise is critical: Gaming, Professional Visualization, Data Center, and Automotive.

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

### Third Quarter of Fiscal Year 2020 Summary

	Three Months Ended			Quarter-over-Quarter Change	Year-over-Year Change
	October 27, 2019	July 28, 2019	October 28, 2018		
	(\$ in millions, except per share data)				
Revenue	\$ 3,014	\$ 2,579	\$ 3,181	17%	(5)%
Gross margin	63.6%	59.8%	60.4%	380 bps	320 bps
Operating expenses	\$ 989	\$ 970	\$ 863	2%	15 %
Income from operations	\$ 927	\$ 571	\$ 1,058	62%	(12)%
Net income	\$ 899	\$ 552	\$ 1,230	63%	(27)%
Net income per diluted share	\$ 1.45	\$ 0.90	\$ 1.97	61%	(26)%

GPU business revenue was \$2.56 billion, down 8% from a year earlier and up 22% sequentially.

Tegra Processor business revenue - which includes Automotive, SOC modules for gaming platforms, and embedded edge AI platforms - was \$449 million, up 10% from a year ago and down 5% sequentially.

From a market platforms perspective, Gaming revenue was \$1.66 billion, down 6% from a year ago and up 26% sequentially. The year-on-year decrease reflects lower sales of GeForce desktop GPUs from the prior year which included the launch of Turing-based GeForce GPUs, partially offset by growth in GeForce notebook GPUs and SOC modules for gaming platforms. The sequential increase reflects growth primarily from GeForce desktop and notebook GPUs.

Professional Visualization revenue was \$324 million, up 6% from a year earlier and up 11% sequentially. The year-on-year and sequential growth reflect strength in mobile workstation products.

Data Center revenue was \$726 million, down 8% from a year ago and up 11% sequentially. The year-on-year decline reflects lower enterprise revenue due to a different mix of products including lower DGX sales, partially offset by an increase in hyperscale demand. The sequential increase was driven by hyperscale demand.

Automotive revenue of \$162 million was down 6% from a year earlier and down 22% sequentially. The year-on-year decrease reflects lower revenue from legacy infotainment modules and autonomous vehicle solutions, partially offset by growth in AI cockpit solutions. The sequential decrease reflects a large non-recurring development services agreement closed in the prior quarter.

OEM and Other revenue was \$143 million, down 3% from a year ago and up 29% sequentially. The sequential increase was primarily due to growth in entry-level GPUs for notebooks PCs.

Gross margin for the third quarter of fiscal year 2020 was 63.6%, up 320 basis points from a year earlier and up 380 basis points sequentially. The year-on-year and sequential increases are primarily driven by improved margins on GeForce GPUs for gaming reflecting the sale of previously written-off components and lower component costs. The sequential increase also reflects higher average selling prices for GeForce GPUs.

Operating expenses for the third quarter of fiscal year 2020 were \$989 million, up 15% from a year earlier and up 2% sequentially, reflecting primarily employee additions and increases in employee compensation and other related costs, including stock-based compensation expense and infrastructure costs.

Income from operations for the third quarter of fiscal year 2020 was \$927 million, down 12% from a year earlier and up 62% sequentially. Net income and net income per diluted share for the third quarter of fiscal year 2020 were \$899 million and \$1.45, respectively, down 27% and 26%, respectively, from a year earlier, and up 63% and 61%, respectively, sequentially. The year-on-year decrease reflects lower revenue and higher operating expenses. The sequential increase reflects higher revenue and gross margin.

On March 10, 2019, we entered into an Agreement and Plan of Merger, or the Merger Agreement, with Mellanox Technologies, Ltd., or Mellanox, pursuant to which we will acquire all of the issued and outstanding common shares of Mellanox for \$125 per share in cash, representing a total enterprise value of approximately \$6.9 billion as of the date of the Merger Agreement. In June 2019, Mellanox shareholders approved the acquisition. The closing of the acquisition is subject to approval by



regulatory agencies. If the Merger Agreement is terminated under certain circumstances involving the failure to obtain the required regulatory approvals, we could be obligated to pay Mellanox a termination fee of \$350 million. We have received regulatory approval in the United States and Mexico and are engaged with regulators in Europe and China. Although discussions with the European Union and China regulatory bodies are progressing and closing the acquisition is possible by the end of this calendar year, we believe the closing will likely occur in the early part of calendar 2020.

We previously communicated our intent to return \$3.00 billion to shareholders by the end of fiscal year 2020, including \$700 million in share repurchases made during the fourth quarter of fiscal year 2019. In the first nine months of fiscal year 2020, we returned \$292 million in quarterly cash dividends. We intend to return the remaining \$2.01 billion through a combination of share repurchases and cash dividends. We do not expect to repurchase shares prior to the close of the acquisition of Mellanox.

Cash, cash equivalents and marketable securities were \$9.77 billion as of October 27, 2019, compared with \$7.42 billion as of January 27, 2019. The increase was primarily related to growth in operating cash flow.

## **GPU Business**

During the third quarter of fiscal year 2020, in our Gaming platform, we announced SUPER versions of GeForce GTX GPUs, with GeForce GTX 1650 SUPER and GeForce GTX 1660 SUPER; introduced the RTX Broadcast Engine, which uses the AI capabilities of GeForce RTX GPUs to enable virtual greenscreens, filters, and AR effects in livestreaming; announced two new models of SHIELD TV streaming media player; and expanded the reach of GeForce NOW game streaming.

In our Professional Visualization platform, we announced that a number of creative and design applications are now accelerated by RTX ray tracing.

In our Data Center platform, we launched the NVIDIA EGX Intelligent Edge Computing Platform to bring accelerated AI to retail, manufacturing, telecommunications, logistics, and other industries; announced a collaboration to integrate Microsoft Azure with EGX; entered the 5G telecom market, enabling telcos to build high performing, efficient, virtualized 5G radio access networks using GPUs; announced collaboration to deliver software-defined 5G RAN; won the first inference benchmark, MLPerf Inference 0.5, measuring AI workload performance in data centers and at the edge; partnered with VMware to accelerate VMware Cloud on AWS using NVIDIA T4 GPUs; and announced that the United States Postal Service will use NVIDIA AI technology.

During the second quarter of fiscal year 2020, in our Gaming platform, we introduced GeForce RTX 2060 SUPER, GeForce RTX 2070 SUPER and GeForce RTX 2080 SUPER to our GeForce GPU lineup; accelerated the momentum of ray-tracing games by supporting newly announced blockbuster titles; introduced new RTX Studio laptops powered by GeForce RTX and Quadro RTX GPUs for online and studio-based creatives and prosumers; and announced OEMs will be launching additional gaming laptops incorporating NVIDIA GeForce Turing GPUs.

In our Professional Visualization platform, we rolled out a full range of Turing architecture-based Quadro GPUs for mobile workstations, also incorporating ray tracing for product design, architecture, effects and scientific visualization.

In our Data Center platform, we announced NVIDIA's DGX SuperPOD, which provides the AI infrastructure for our autonomous-vehicle development program; set eight records in AI training performance in the latest MLPerf benchmarking tests; and announced support for Arm CPUs, providing a new path to build highly energy-efficient, AI-enabled exascale supercomputers.

During the first quarter of fiscal year 2020, in our Gaming platform, we introduced the GeForce GTX 1660 Ti, GTX 1660 and GTX 1650 gaming GPUs with improved performance and efficiency for today's most popular games; announced a number of gaming laptop models based on Turing GPUs from top makers; and announced that real-time ray tracing is now integrated into Unreal Engine and Unity commercial game engines.

In our Professional Visualization platform, we announced expanded adoption of NVIDIA RTX ray-tracing technology by top 3D application providers and unveiled the NVIDIA Omniverse open-collaboration platform to simplify creative workflows for content creation.

In our Data Center platform, we introduced the NVIDIA CUDA-X AI platform for accelerating data science; announced availability of NVIDIA T4 Tensor Core GPUs from leading OEMs and Amazon Web Services; partnered with global system builders to create powerful data-science workstations integrating NVIDIA Quadro RTX GPUs and NVIDIA CUDA-X AI; and launched beta access to NVIDIA Quadro Virtual Workstation software in the Alibaba Cloud Marketplace.

## Tegra Processor Business

During the third quarter of fiscal year 2020, we launched Xavier NX, an AI supercomputer for robotic and embedded computing devices at the edge.

During the second quarter of fiscal year 2020, in our Automotive platform, Volvo Group announced that it is using the NVIDIA DRIVE end-to-end autonomous driving platform to train networks in the data center, test them in simulation, and deploy them in self-driving vehicles, targeting freight transport, refuse and recycling collection, public transport, construction, mining, forestry and more.

During the first quarter of fiscal year 2020, in our Automotive platform, we announced that we are partnering with Toyota Research Institute-Advanced Development to develop, train and validate self-driving vehicles; unveiled the NVIDIA DRIVE AP2X automated driving solution, encompassing DRIVE AutoPilot software, DRIVE AGX and DRIVE validation tools; introduced NVIDIA DRIVE AV Safety Force Field to enable safe, comfortable driving experiences; and announced availability of the NVIDIA DRIVE Constellation autonomous vehicle simulation platform.

## 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		Nine Months Ended	
	October 27, 2019	October 28, 2018	October 27, 2019	October 28, 2018
Revenue	100.0 %	100.0 %	100.0 %	100.0 %
Cost of revenue	36.4	39.6	39.2	37.3
Gross profit	63.6	60.4	60.8	62.7
Operating expenses				
Research and development	23.6	19.0	26.8	18.2
Sales, general and administrative	9.2	8.1	10.3	7.6
Total operating expenses	32.8	27.1	37.1	25.8
Income from operations	30.8	33.3	23.7	36.9
Interest income	1.5	1.2	1.8	1.0
Interest expense	(0.4)	(0.5)	(0.5)	(0.5)
Other, net	—	—	—	0.1
Total other income (expense)	1.1	0.7	1.3	0.6
Income before income tax	31.9	34.0	25.0	37.5
Income tax expense (benefit)	2.0	(4.7)	1.4	—
Net income	29.9 %	38.7 %	23.6 %	37.5 %

## Revenue

### Revenue by Reportable Segments

	Three Months Ended				Nine Months Ended			
	October 27, 2019	October 28, 2018	\$ Change	% Change	October 27, 2019	October 28, 2018	\$ Change	% Change
(\$ in millions)								
GPU	\$ 2,565	\$ 2,774	\$ (209)	(8)%	\$ 6,691	\$ 8,195	\$ (1,504)	(18)%
Tegra Processor	449	407	42	10 %	1,122	1,316	(194)	(15)%
Total	\$ 3,014	\$ 3,181	\$ (167)	(5)%	\$ 7,813	\$ 9,511	\$ (1,698)	(18)%

**GPU Business.** GPU business revenue decreased by 8% in the third quarter of fiscal year 2020 compared to the third quarter of fiscal year 2019, which reflects declines in GPUs sold for gaming and Data Center revenue. GeForce GPU product sales for gaming decreased 10%, reflecting a decline in shipments of desktop GPUs partially offset by revenue growth in notebook GPUs. Data Center revenue, which includes Tesla, GRID and DGX, decreased 8%, primarily reflecting a decline in enterprise revenue due to a different mix of products including lower DGX sales, offset by an increase in hyperscale revenue. Revenue from Quadro GPUs for professional visualization increased 6%, primarily reflecting strength across mobile workstation products.

GPU business revenue decreased by 18% in the first nine months of fiscal year 2020 compared to the first nine months of fiscal year 2019, which reflects declines in GPUs sold for gaming and Data Center revenue. GeForce GPU product sales for gaming decreased 22%, reflecting a decline in shipments of desktop GPUs partially offset by growth in notebook GPUs. Data Center revenue, which includes Tesla, GRID and DGX, decreased 11%, primarily reflecting a decline in hyperscale revenue partially offset by enterprise revenue growth driven by expanding AI workloads. Revenue from Quadro GPUs for professional visualization increased 5% due primarily reflecting strength across mobile workstation products. Our PC OEM revenue decreased by 46% primarily driven by the absence of cryptocurrency mining processor GPU sales.

**Tegra Processor Business.** Tegra Processor business revenue increased by 10% for the third quarter of fiscal year 2020 compared to the third quarter of fiscal year 2019. This was driven by an increase in revenue from SOC modules for gaming platforms, which was partially offset by a decline of 6% in Automotive revenue. The decrease in Automotive revenue reflected slowdown of infotainment modules and autonomous vehicle solutions partially offset by growth in AI cockpit solutions.

Tegra Processor business revenue decreased by 15% for the first nine months of fiscal year 2020 compared to the first nine months of fiscal year 2019. This was driven by a decline in revenue from SOC modules for gaming platforms, which was partially offset by an increase of 12% in Automotive revenue. Growth in Automotive revenue primarily reflects growth in AI cockpit solutions and autonomous vehicle solutions.

### Concentration of Revenue

Revenue from sales to customers outside of the United States accounted for 92% of total revenue for the third quarter and first nine months of fiscal year 2020. Revenue from sales to customers outside of the United States accounted for 87% of total revenue for the third quarter and first nine months of fiscal year 2019. 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.

One customer represented approximately 10% of our total revenue for the third quarter and approximately 11% of our total revenue for the first nine months of fiscal year 2020, and was attributable primarily to the GPU business. No customer represented 10% or more of total revenue for the third quarter and first nine months of fiscal year 2019.

### Gross Margin

Our overall gross margin increased to 63.6% for the third quarter of fiscal year 2020 from 60.4% for the third quarter of fiscal year 2019 are primarily driven by improved margins on GeForce GPUs for gaming reflecting the sale of previously written-off components and lower component costs. Our overall gross margin decreased to 60.8% for the first nine months of fiscal year 2020 from 62.7% for the first nine months of fiscal year 2019 reflecting product transitions and product mix offset by the sale of previously written off components associated with GeForce GPUs for gaming.

Inventory provisions totaled \$42 million and \$70 million for the third quarter of fiscal years 2020 and 2019, respectively. Sales of inventory that was previously written-off or written-down totaled \$78 million and \$13 million for the third quarter of fiscal years 2020 and 2019, respectively. As a result, the overall net effect on our gross margin was a favorable impact of 1.2% and unfavorable impact of 1.8% for the third quarter of fiscal years 2020 and 2019, respectively.

Inventory provisions totaled \$114 million and \$124 million for the first nine months of fiscal years 2020 and 2019, respectively. Sales of inventory that was previously written-off or written-down totaled \$109 million and \$29 million for the first nine months of fiscal years 2020 and 2019, respectively. As a result, the overall net effect on our gross margin was an unfavorable impact of 0.1% and 1.0% for the first nine months of fiscal years 2020 and 2019, respectively.

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 third quarter of fiscal year 2020 compared to the third quarter of fiscal year 2019, reflecting the sale of previously written off components. For the first nine months of fiscal year 2020 compared to the first nine months of fiscal year 2019, gross margin decreased primarily reflecting product transitions and product mix offset by the sale of previously written off components.

**Tegra Processor Business.** The gross margin of our Tegra Processor business decreased during the third quarter of fiscal year 2020 compared to the third quarter of fiscal year 2019, primarily driven by higher OEM product costs and product mix. For the first nine months of fiscal year 2020 compared to the first nine months of fiscal year 2019, gross margin decreased primarily due to product mix.

## Operating Expenses

	Three Months Ended				Nine Months Ended			
	October 27, 2019	October 28, 2018	\$ Change	% Change	October 27, 2019	October 28, 2018	\$ Change	% Change
	(\$ in millions)				(\$ in millions)			
Research and development expenses	\$ 712	\$ 605	\$ 107	18%	\$ 2,091	\$ 1,729	\$ 362	21%
% of net revenue	24%	19%			27%	18%		
Sales, general and administrative expenses	277	258	19	7%	806	725	81	11%
% of net revenue	9%	8%			10%	8%		
Total operating expenses	\$ 989	\$ 863	\$ 126	15%	\$ 2,897	\$ 2,454	\$ 443	18%

### Research and Development

Research and development expenses increased by 18% and 21% during the third quarter and first nine months of fiscal year 2020, compared to the third quarter and first nine months of fiscal year 2019, respectively, driven primarily by employee additions, increases in employee compensation and other related costs, including infrastructure costs and stock-based compensation expense.

### Sales, General and Administrative

Sales, general and administrative expenses increased by 7% during the third quarter of fiscal year 2020, compared to the third quarter of fiscal year 2019, driven primarily by employee additions, increases in employee compensation and other related costs, including stock-based compensation expense and infrastructure costs.

Sales, general and administrative expenses increased by 11% during the first nine months of fiscal year 2020, compared to the first nine months of fiscal year 2019, driven primarily by costs related to employee additions, increases in employee compensation and other related costs, including stock-based compensation expense and infrastructure costs, and costs related to our plans to acquire Mellanox.

## 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 \$45 million and \$37 million during the third quarter of fiscal years 2020 and 2019, respectively, and \$137 million and \$94 million during the first nine months of fiscal years 2020 and 2019, respectively. The increase in interest income was primarily due to higher average invested balances.

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. Interest expense was \$13 million and \$15 million during the third quarters of fiscal years 2020 and 2019, respectively, and \$39 million and \$44 million during the first nine months of fiscal years 2020 and 2019, respectively.

## Income Taxes

We recognized an income tax expense of \$60 million and \$109 million for the third quarter and first nine months of fiscal year 2020, respectively, and an income tax benefit of \$149 million and \$3 million for the third quarter and first nine months of fiscal year 2019, respectively. The income tax expense as a percentage of income before income tax was 6.3% and 5.6% for the third quarter and first nine months of fiscal year 2020, respectively, and income tax benefit as a percentage of income before income tax was 13.8% and nominal for the third quarter and first nine months of fiscal year 2019, respectively.

The increase in our effective tax rate for the third quarter and first nine months of fiscal year 2020 as compared to the third quarter and first nine months of fiscal year 2019 was primarily due to a decrease of tax benefits from stock-based compensation and an absence of the tax benefit related to the reduction in our provisional U.S. tax reform transition tax amount.

Refer to Note 6 of the Notes to Condensed Consolidated Financial Statements for further information.

## Liquidity and Capital Resources

	October 27, 2019	January 27, 2019
	<i>(In millions)</i>	
Cash and cash equivalents	\$ 9,765	\$ 782
Marketable securities	4	6,640
Cash, cash equivalents and marketable securities	\$ 9,769	\$ 7,422

	Nine Months Ended	
	October 27, 2019	October 28, 2018
	<i>(In millions)</i>	
Net cash provided by operating activities	\$ 3,296	\$ 2,845
Net cash provided by (used in) investing activities	\$ 6,296	\$ (4,137)
Net cash used in financing activities	\$ (609)	\$ (1,989)

As of October 27, 2019, we had \$9.77 billion in cash, cash equivalents and marketable securities, an increase of \$2.35 billion from the end of fiscal year 2019. Our investment policy requires the purchase of highly rated fixed income securities, the diversification of investment types and credit exposures, and certain limits on our portfolio duration.

Cash provided by operating activities increased in the first nine months of fiscal year 2020 compared to the first nine months of fiscal year 2019, due to changes in working capital driven by a reduction in days sales outstanding and a reduction in inventory. These increases were partially offset by lower net income.

Cash provided by investing activities increased in the first nine months of fiscal year 2020 compared to cash used in the first nine months of fiscal year 2019, due to lower purchases of marketable securities and higher maturities and sales of marketable securities in preparation for the acquisition of Mellanox.

Cash used in financing activities decreased in the first nine months of fiscal year 2020 compared to the first nine months of fiscal year 2019, due to lower share repurchases and lower tax payments related to employee stock plans.

### Liquidity

Our primary sources of liquidity are our cash and cash equivalents, our marketable securities, and the cash generated by our operations. Our marketable securities consist of debt securities issued by the U.S. 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 7 of the Notes to Condensed Consolidated Financial Statements for additional information.

As a result of the Tax Cuts and Jobs Act, substantially all of our cash, cash equivalents and marketable securities held outside of the United States as of October 27, 2019 are available for use in the United States without incurring additional U.S. federal income taxes.

### Capital Return to Shareholders

We previously communicated our intent to return \$3.00 billion to shareholders by the end of fiscal year 2020, including \$700 million in share repurchases made during the fourth quarter of fiscal year 2019. In the first nine months of fiscal year 2020, we returned \$292 million in quarterly cash dividends. We intend to return the remaining \$2.01 billion through a combination of share repurchases and cash dividends. We do not expect to repurchase shares prior to the close of the acquisition of Mellanox. As of October 27, 2019, we were authorized, subject to certain specifications, to repurchase additional shares of our common stock up to \$7.24 billion through December 2022.

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.

#### **Revolving Credit Facility**

We have a Credit Agreement under which we may borrow up to \$575 million for general corporate purposes and can obtain revolving loan commitments up to \$425 million. As of October 27, 2019, we had not borrowed any amounts under this agreement.

#### **Commercial Paper**

We have a \$575 million commercial paper program to support general corporate purposes. As of October 27, 2019, we had not issued any commercial paper.

#### **Operating Capital and Capital Expenditure Requirements**

In fiscal year 2019, we began construction on a 750 thousand square foot building on our Santa Clara campus, which is currently targeted for completion in fiscal year 2022. We believe that we have sufficient liquidity to meet our operating requirements for at least the next twelve months.

#### **Off-Balance Sheet Arrangements**

As of October 27, 2019, 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 27, 2019 other than our proposed acquisition of Mellanox as described in Note 2 of the Notes to Condensed Consolidated Financial Statements.

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 27, 2019 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 27, 2019. As of October 27, 2019, there have been no material changes to the financial market risks described as of January 27, 2019.

#### **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 27, 2019. As of October 27, 2019, there have been no material changes to the foreign exchange rate risks described as of January 27, 2019.

Refer to Note 11 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 October 27, 2019, 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 third quarter of fiscal year 2020 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 27, 2019. Also refer to Item 3, "Legal Proceedings" in our Annual Report on Form 10-K for the fiscal year ended January 27, 2019 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 27, 2019. Other than the risk factors listed below, 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 27, 2019 and Item 1A of our Quarterly Report on Form 10-Q for the quarter ended April 28, 2019.

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 27, 2019 and Item 1A of our Quarterly Report on Form 10-Q for the quarter ended April 28, 2019. 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.

#### **Business disruptions could harm our business, lead to a decline in revenues and increase our costs.**

Our worldwide operations could be disrupted by earthquakes, telecommunications failures, power or water shortages, outages at cloud service providers, tsunamis, floods, hurricanes, typhoons, fires, extreme weather conditions, cyber-attacks, terrorist attacks, medical epidemics or pandemics and other natural or man-made disasters, catastrophic events or climate change. The occurrence of any of these disruptions could harm our business and result in significant losses, a decline in revenue and an increase in our costs and expenses. Any of these business disruptions could require substantial expenditures and recovery time in order to fully resume operations. Our corporate headquarters, and a portion of our research and development activities, are located in California, and other critical business operations, finished goods inventory, and some of our suppliers are located in Asia, near major earthquake faults known for seismic activity. In addition, a large portion of our current datacenter capacity is located in California, making our operations vulnerable to natural disasters or other business disruptions occurring in these geographical areas. The manufacture of product components, the final assembly of our products and other critical operations are concentrated in certain geographic locations, including Taiwan, China, Hong Kong, and Korea. Additionally, a significant portion of our finished goods product distribution occurs through Hong Kong. Geopolitical change or changes in government regulations and policies in the United States or abroad may result in changing regulatory requirements, trade policies, import duties and economic disruptions that could impact our operating strategies,

product demand, access to global markets, hiring, and profitability. In particular, revisions to laws or regulations or their interpretation and enforcement could result in increased taxation, trade sanctions, the imposition of import duties or tariffs, restrictions and controls on imports or exports, or other retaliatory actions, which could have an adverse effect on our business plans. For example, regulations to implement the Export Control Reform Act of 2018 could have an adverse effect on our business plans. Catastrophic events can also have an impact on third-party vendors who provide us critical infrastructure services for IT and research and development systems and personnel. Our operations could be harmed if manufacturing, logistics or other operations in these locations are disrupted for any reason, including natural disasters, high heat events or water shortages, information technology system failures, military actions or economic, business, labor, environmental, public health, regulatory or political issues. The ultimate impact on us, our third-party foundries and other suppliers and our general infrastructure of being located near major earthquake faults and being consolidated in certain geographical areas is unknown. In the event a major earthquake or other disaster or catastrophic event affects us or the third-party systems on which we rely, our business could be harmed as a result of declines in revenue, increases in expenses, substantial expenditures and time spent to fully resume operations.

**We receive a significant amount of our revenue from a limited number of customers within our partner network and our revenue could be adversely affected if we lose or are prevented from selling to any of these customers.**

We receive a significant amount of our revenue from a limited number of customers within our partner network. With several of these partners, we are selling multiple target market platforms through their channels. As a result, approximately 10% and approximately 11% of our total revenue for the third quarter and first nine months of fiscal year 2020, respectively, were from one customer. Our operating results in the foreseeable future will continue to depend on sales within our partner network, as well as the ability of these partners to sell products that incorporate our GPUs and Tegra processors. In the future, these partners may decide to purchase fewer products than they did in the past, not to incorporate our products into their ecosystem, or to alter their purchasing patterns in some other way, particularly because:

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

We could also be restricted from selling our products or providing our technology and services due to U.S. trade restrictions. The loss of any of our large customers, a significant reduction in purchases by them, or our inability to sell to a customer due to U.S. trade restrictions would likely harm our financial condition and results of operations, and any difficulties in collecting accounts receivable could harm our operating results and financial condition.

We maintain an allowance for doubtful accounts for estimated losses resulting from the inability of certain of our customers to make required payments and obtain credit insurance over the purchasing credit extended to these customers. In the future, we may have to record additional provisions or write-offs and/or defer revenue on certain sales transactions, which could negatively impact our financial results, and we may not be able to acquire credit insurance on the credit we extend to these customers or in amounts that we deem sufficient.

## **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.

Since the inception of our share repurchase program, we have repurchased an aggregate of 260 million shares under our share repurchase program for a total cost of \$7.08 billion through October 27, 2019. All shares delivered from these repurchases have been placed into treasury stock.

As of October 27, 2019, we were authorized to repurchase additional shares of our common stock up to \$7.24 billion through December 2022.

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. 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.

We previously communicated our intent to return \$3.00 billion to shareholders by the end of fiscal year 2020, including \$700 million in share repurchases made during the fourth quarter of fiscal year 2019. In the first nine months of fiscal year



2020, we returned \$292 million in quarterly cash dividends. We had no share repurchases during the first nine months of fiscal year 2020. We intend to return the remaining \$2.01 billion through a combination of share repurchases and cash dividends. We do not expect to repurchase shares prior to the close of the acquisition of Mellanox.

**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 third quarter of fiscal year 2020, we withheld approximately 1 million shares at a total cost of \$202 million through net share settlements. During the first nine months of fiscal year 2020, we withheld approximately 3 million shares at a total cost of \$463 million through net share settlements. Refer to Note 4 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
31.1*	<a href="#">Certification of Chief Executive Officer as required by Rule 13a-14(a) of the Securities Exchange Act of 1934</a>				
31.2*	<a href="#">Certification of Chief Financial Officer as required by Rule 13a-14(a) of the Securities Exchange Act of 1934</a>				
32.1#*	<a href="#">Certification of Chief Executive Officer as required by Rule 13a-14(b) of the Securities Exchange Act of 1934</a>				
32.2#*	<a href="#">Certification of Chief Financial Officer as required by Rule 13a-14(b) of the Securities Exchange Act of 1934</a>				
101.INS*	Inline XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.				
101.SCH*	Inline XBRL Taxonomy Extension Schema Document				
101.CAL*	Inline XBRL Taxonomy Extension Calculation Linkbase Document				
101.DEF*	Inline XBRL Taxonomy Extension Definition Linkbase Document				
101.LAB*	Inline XBRL Taxonomy Extension Labels Linkbase Document				
101.PRE*	Inline XBRL Taxonomy Extension Presentation Linkbase Document				
104	Cover Page Interactive Data File - the cover page interactive data file does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.				

\* Filed herewith

# 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: November 14, 2019

NVIDIA Corporation

By: /s/ Colette M. Kress

Colette M. Kress

Executive Vice President and Chief Financial Officer (Duly Authorized Officer and Principal Financial Officer)