(D) Fiscal year 2009 includes $18.9 million for a non-recurring charge resulting from the termination of a development contract related to a new campus construction project we have put on hold and $8.0 million for restructuring charges.

(E) On June 10, 2011, we completed the acquisition of Icera, Inc. for total cash consideration of $352.2 million, and recorded goodwill of $271.2 million.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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

Overview

Our Company

NVIDIA is known to millions around the world for creating the graphics chips that make their PC amazing when playing games or making home movies. With the invention of the GPU, we brought forth to the world the power of computer graphics. Today, we reach well beyond PC graphics. Our energy-efficient processors power a broad range of products, from smart phones to supercomputers. Our mobile processors are used in cell phones, tablets and auto infotainment systems. PC gamers rely on our GPUs to enjoy visually immersive worlds. Designers use them to create visual effects in movies and create everything from golf clubs to jumbo jets. And researchers utilize GPUs to push the frontiers of science with high-performance computing. NVIDIA has nearly 5,000 patents granted and pending worldwide, including many inventions essential to modern computing.

NVIDIA solutions are based on two important technologies: the GPU and the mobile processor. Both are highly complex chips, designed by NVIDIA engineers, and manufactured for us by a third party chip foundry. GPUs are the engines of visual computing, a field that includes computer graphics, image processing, to computer vision. Visual computing is the science and art of using computers to understand, create, and enhance images. One of the most complex processors ever created, the most advanced GPUs contain billions of transistors and require thousands of man years to create. We have three GPU product brands: GeForce, which creates amazing visual experiences for gamers; Quadro, the standard in visual computing for designers and digital artists; and Tesla, which accelerates applications for scientists and researchers.

Mobile processors incorporate CPU and GPU technologies to deliver an entire computer system on a single chip, or system-on-chip. Modern mobile processors are remarkable in their computing capabilities yet consume a hundred times less energy than a typical PC. Tegra is our mobile processor and is built for applications ranging from smartphones, tablets, and notebook PCs to TVs and cars. We believe energy-efficient mobile computing will revolutionize how computers are used in our lives. Tegra is a major new growth business for us.

We were incorporated in California in April 1993 and reincorporated in Delaware in April 1998. Our headquarter facilities are in Santa Clara, California.

Reporting Segments

We have three primary financial reporting segments - GPU Business; Professional Solutions Business, or PSB; and Consumer Products Business, or CPB.

Reporting Segments	Primary Revenue Sources
GPU	ž GeForce discrete graphics and chipset products and notebook PCs ž Licensing fees from Intel Corporation ž Memory products
PSB	ž Quadro professional workstation products ž Tesla high-performance computing products
CPB	ž Tegra mobile products ž Icera baseband processors and RF transceivers for mobile connectivity ž Royalty license fees and other revenue related to video game consoles ž GPU and Tegra products in embedded products and automobiles

Recent Developments, Future Objectives and Challenges

GPU Business

Our GeForce GPUs power PCs made by or distributed by most PC original equipment manufacturers, or OEMs in the world. We launched over 30 GPUs in fiscal year 2012.We expect the release of our new Kepler architecture to continue the growth in our GPU business. The power efficiency of our Kepler architecture provides a significant differentiator.

We ceased development of future chipset products based on the technology of the media and communications processor, or MCP, in the first quarter of fiscal 2011 and expect MCP chipset revenue in fiscal 2013 to be immaterial. Our MCP chipsets primarily comprised of our ION motherboard GPUs, a product reaching the end of its life cycle.

Professional Solutions Business

In fiscal year 2012, we launched Project Maximus, which uses the compute power of Tesla with the visualization power of Quadro to merge the design and simulation stages into one workstation. Traditionally, the design and simulation stages of new product development have been separate, requiring the designer to hand over to a simulation expert and wait for the results before revising their design. Combining the processes greatly reduces the time for each iteration. “Simulation”, in this context, can mean verifying a plastic component is capable of manufacture by modeling the injection of molten plastic into a mold, determining a product is strong enough through a stress simulation, or generating a photorealistic image of a consumer product by simulating the path of light through and across it.

There are now 35 computers in the Top500 list of supercomputers based on Tesla GPUs, up from 10 last year, and Oak Ridge National Labs announced in 2011 that Titan, its next supercomputer, will be built with 18,000 Tesla GPUs and is planned to be the world's fastest computer when it goes live in 2012. At the GPU Technology Conference Asia in December 2011, we announced that CUDA, our parallel programming architecture, would be part of programming courses at 200 universities across China, potentially generating up to 20,000 additional Tesla programmers every year.

Consumer Products Business

During fiscal year 2012, we launched Tegra 3, the world's first quad-core mobile computing chip, bringing PC levels of performance within the power envelope of a cellular phone chip. Tegra 3 includes several unique innovations, including its variable symmetric multiprocessing architecture with companion core which enables extremely low-power operation during the majority of use cases, and PRISM, which increases battery life during video playback by 40%. Another notable innovation is DirectTouch, which significantly improves the responsiveness of touch-screen user interfaces on devices and simultaneously reduces costs for the device manufacturer. Our software expertise makes both of these inventions completely transparent to the operating system; that is, neither the operating system nor the application developer has to know about them for users to benefit from them.

Tegra 3 is currently available to consumers in the Asus Transformer Prime, with additional products expected throughout calendar year 2012. Tegra 3 phones have been announced by HTC, LG, Fujitsu, ZTE and Tianyu. Tegra 3 tablets have been announced from ASUS, Acer, Fujitsu, Lenovo, Toshiba and ZTE and we continue to work with a number of other device makers on Tegra 3-powered devices.

In addition, ZTE, the world's fourth-largest cell phone manufacturer, has announced the first phone to use an Icera baseband processor. The ZTE Mimosa X uses Tegra 2 and the Icera i450 baseband processor to deliver superphone performance to the large and rapidly growing mainstream market in China.

During the second quarter of fiscal year 2012, we completed the acquisition of Icera, an innovator of baseband processors for 3G and 4G cellular phones and tablets. Icera's technology uses a custom-built, low-power processor and a software-based baseband which assist manufacturers to develop multiple products from a common platform, reduce development costs and accelerate time to market. Icera's high-speed wireless modem products have been approved by more than 50 carriers across the globe. In addition to leveraging on the existing Icera business, the objective of the acquisition is to accelerate and enhance the combination of our application processor with Icera's baseband processor for use in mobile devices such as smartphone and tablets. Please refer to Note 7 of the Notes to the Consolidated Financial Statements in Part IV, Item 15 of this Form 10-K for additional information regarding this business combination.

Critical Accounting Policies and Estimates

Management’s discussion and analysis of financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with U.S. GAAP. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue, cost of revenue, expenses and related disclosure of contingencies. On an on-going basis, we evaluate our estimates, including those related to revenue recognition, cash equivalents and marketable securities, accounts receivable, inventories, income taxes, goodwill, stock-based compensation, warranty liabilities, litigation, investigation and settlement costs and other contingencies. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities.

We believe the following critical accounting policies affect our significant judgments and estimates used in the preparation of our consolidated financial statements. Our management has discussed the development and selection of these critical accounting policies and estimates with the Audit Committee of our Board of Directors, or Board. The Audit Committee has reviewed our disclosures relating to our critical accounting policies and estimates in this Annual Report on Form 10-K.

Revenue Recognition

Product Revenue

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

Our policy on sales to certain distributors, with rights of return, is to defer recognition of revenue and related cost of revenue until the distributors resell the product, as the level of returns cannot be reasonably estimated.

Our customer programs primarily involve rebates, which are designed to serve as sales incentives to resellers of our products in various target markets. We accrue for 100% of the potential rebates and do not apply a breakage factor. We recognize a liability for these rebates at the later of the date at which we record the related revenue or the date at which we offer the rebate. Rebates typically expire six months from the date of the original sale, unless we reasonably believe that the customer intends to claim the rebate. Unclaimed rebates are reversed to revenue.

Our customer programs also include marketing development funds, or MDFs. We account for MDFs as either a reduction of revenue or an operating expense, depending on the nature of the program. MDFs represent monies paid to retailers, system builders, original equipment manufacturers, or OEMs, distributors and add-in card partners that are earmarked for market segment development and expansion and typically are designed to support our partners' activities while also promoting NVIDIA products. Depending on market conditions, we may take actions to increase amounts offered under customer programs, possibly resulting in an incremental reduction of revenue at the time such programs are offered.

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

License and Development Revenue

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

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

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

Accounts Receivable

We maintain an allowance for doubtful accounts receivable for estimated losses resulting from the inability of our customers to make required payments. Management determines this allowance, which consists of an amount identified for specific customer issues as well as an amount based on overall estimated exposure. Our accounts receivable are highly concentrated and make us vulnerable to adverse changes in our customers businesses, and to downturns in the industry and the worldwide economy. Our overall estimated exposure excludes significant amounts that are covered by credit insurance and letters of credit. If the financial condition of our customers, the financial institutions providing letters of credit, or our credit insurance carrier were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required that could adversely affect our operating results. This risk is heightened during periods when economic conditions worsen, such as the when the worldwide economy is experiencing a significant downturn. The financial turmoil that affected the banking system and financial markets and increased the risk that financial institutions mighty consolidate or go out of business resulted in a tightening in the credit markets, a lower than normal level of liquidity in many financial markets, and extreme volatility in fixed income, credit, currency and equity markets. There could be a number of follow-on effects from this type of credit crisis on our business, including inability of customers, including channel partners, to obtain credit to finance purchases of our products and/or customer, insolvencies and failure of financial institutions, which could negatively impact our financial results. Furthermore, there can be no assurance that we will be able to continue to obtain credit insurance in the future.

As of January 29, 2012, our allowance for doubtful accounts receivable was $0.9 million and our gross accounts receivable balance was $363.6 million. Of the $363.6 million, $84.8 million was covered by credit insurance and $12.4 million was covered by letters of credit. If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required and we may have to record additional reserves or write-offs on certain sales transactions in the future. Factors impacting the allowance include the level of gross receivables, the financial condition of our customers and the extent to which balances are covered by credit insurance or letters of credit. We have incurred cumulative bad debts of $0.2 million over the last three fiscal years. As a result of our low bad debt experience, our allowance for doubtful accounts receivable has ranged between 0.2% and 0.3% during fiscal years 2012 and 2011. As of January 29, 2012, our allowance for doubtful accounts receivable represented 0.3% of our gross accounts receivable balance.

Inventories

Inventory cost is computed on an adjusted standard basis, which approximates actual cost on an average or first-in, first-out basis. Inventory costs consist primarily of the cost of semiconductors purchased from subcontractors, including wafer fabrication, assembly, testing and packaging, manufacturing support costs, including labor and overhead associated with such purchases, final test yield fallout, inventory provisions and shipping costs. We write down our inventory to the lower of cost or estimated market value. Obsolete or unmarketable inventory is completely written off based upon assumptions about future demand, future product purchase commitments, estimated manufacturing yield levels and market conditions. If actual market conditions are less favorable than those projected by management, or if our current inventory or future product purchase commitments to our suppliers exceed our forecasted future demand for such products, additional future inventory write-downs may be required that could adversely affect our operating results. Inventory reserves once established are not reversed until the related inventory has been sold or scrapped. If actual market conditions are more favorable than expected and we sell products that we have previously written down, our reported gross margin would be favorably impacted.

As of January 29, 2012, our inventory reserve was $110.1 million. As a percentage of our gross inventory balance, our inventory reserve has ranged between 15.0% and 30.6% during fiscal years 2012 and 2011. As of January 29, 2012, our inventory reserve represented 24.4% of our gross inventory balance.

Warranty Liabilities

Cost of revenue includes the estimated cost of product warranties that are calculated at the point of revenue recognition. Under limited circumstances, we may offer an extended limited warranty to customers for certain products. Our products are complex and may contain defects or experience failures due to any number of issues in design, fabrication, packaging, materials and/or use within a system. If any of our products or technologies contains a defect, compatibility issue or other error, we may have to invest additional research and development efforts to find and correct the issue. Such efforts could divert our management's and engineers' attention from the development of new products and technologies and could increase our operating costs and reduce our gross margin. In addition, an error or defect in new products or releases or related software drivers after commencement of commercial shipments could result in failure to achieve market acceptance or loss of design wins. Also, we may be required to reimburse customers, including our customers' costs to repair or replace products in the field. A product recall or a significant number of product returns could be expensive, damage our reputation and could result in the shifting of business to our competitors. Costs associated with correcting defects, errors, bugs or other issues could be significant and could materially harm our financial results.

As of January 29, 2012, we recorded a total cumulative net charge of $475.9 million, of which $466.4 million has been charged against cost of revenue and the remainder has been charged to sales, general and administrative to cover customer warranty, repair, return, replacement and other costs arising from a weak die/packaging material set in certain versions of our previous generation MCP and GPU products used in notebook configurations. Included in the charge are the costs of implementing a settlement with the plaintiffs of a putative consumer class action lawsuit related to this same matter and other related estimated consumer class action settlements.

Determining the amount of the warranty charges related to this issue required management to make estimates and judgments based on historical experience, test data and various other assumptions including estimated field failure rates that we believe to be reasonable under the circumstances. The results of these judgments formed the basis for our estimate of the total charge to cover anticipated customer warranty, repair, return and replacement and other associated costs. However, if actual repair, return, replacement and other associated costs and/or actual field failure rates exceed our estimates, we may be required to record additional reserves, which would increase our cost of revenue and materially harm our financial results.

Income Taxes

We recognize federal, state and foreign current tax liabilities or assets based on our estimate of taxes payable or refundable in the current fiscal year by tax jurisdiction. We recognize federal, state and foreign deferred tax assets or liabilities, as appropriate, for our estimate of future tax effects attributable to temporary differences and carryforwards; and we record a valuation allowance to reduce any deferred tax assets by the amount of any tax benefits that, based on available evidence and judgment, are not expected to be realized.

United States income tax has not been provided on earnings of our non-U.S. subsidiaries to the extent that such earnings are considered to be indefinitely reinvested.

Our calculation of current and deferred tax assets and liabilities is based on certain estimates and judgments and involves dealing with uncertainties in the application of complex tax laws. Our estimates of current and deferred tax assets and liabilities may change based, in part, on added certainty or finality to an anticipated outcome, changes in accounting standards or tax laws in the United States, or foreign jurisdictions where we operate, or changes in other facts or circumstances. In addition, we recognize liabilities for potential United States and foreign income tax contingencies based on our estimate of whether, and the extent to which, additional taxes may be due. If we determine that payment of these amounts is unnecessary or if the recorded tax liability is less than our current assessment, we may be required to recognize an income tax benefit or additional income tax expense in our financial statements, accordingly.

As of January 29, 2012, we had a valuation allowance of $212.3 million related to state and certain foreign deferred tax assets that management determined are not likely to be realized due, in part, to projections of future taxable income and potential utilization limitations of tax attributes acquired as a result of stock ownership changes. To the extent realization of the deferred tax assets becomes more-likely-than-not, we would recognize such deferred tax asset as an income tax benefit during the period.

Our deferred tax assets do not include the excess tax benefit related to stock-based compensation that are a component of our federal and state net operating loss and research tax credit carryforwards in the amount of $526.0 million as of January 29, 2012. Consistent with prior years, the excess tax benefit reflected in our net operating loss and research tax credit carryforwards will be accounted for as a credit to stockholders' equity, if and when realized. In determining if and when excess tax benefits have been realized, we have elected to utilize the with-and-without approach with respect to such excess tax benefits. We have also elected to ignore the indirect tax effects of stock-based compensation deductions for financial and accounting reporting purposes, and specifically to recognize the full effect of the research tax credit in income from continuing operations.

We recognize the benefit from a tax position only if it is more-likely-than-not that the position would be sustained upon audit based solely on the technical merits of the tax position. Our policy is to include interest and penalties related to unrecognized tax benefits as a component of income tax expense. Please refer to Note 15 of the Notes to the Consolidated Financial Statements in Part IV, Item 15 of this Form 10-K for additional information.

Goodwill

Goodwill is subject to our annual impairment test during the fourth quarter of our fiscal year, or earlier if indicators of potential impairment exist, using a fair value-based approach based on either a qualitative or a quantitative assessment. Our impairment review process compares the fair value of the reporting unit in which the goodwill resides to its carrying value. We determined that our reporting units are equivalent to our operating segments, or components of an operating segment, for the purposes of completing our goodwill impairment test. Determining the number of reporting units and the fair value of a reporting unit requires us to make judgments and involves the use of significant estimates and assumptions. We also make judgments and assumptions in allocating assets and liabilities to each of our reporting units. We base our fair value estimates on assumptions we believe to be reasonable but that are unpredictable and inherently uncertain.

Effective the fourth quarter of fiscal year 2012, we early adopted an accounting standard update, commonly referred to the step zero approach, which allows us to first assess qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. For reporting units in which the qualitative assessment concludes it is more likely than not that the fair value is more than its carrying value, the amended guidance eliminates the requirement to perform further goodwill impairment testing. For those reporting units where significant change or event occurs, and where potential impairment indicators exist, we continue to utilize a two-step quantitative assessment to testing goodwill for impairment. The first step tests for possible impairment by applying a fair value-based test. In computing fair value of our reporting units, we use estimates of future revenues, costs and cash flows from such units. The second step, if necessary, measures the amount of such impairment by applying fair value-based tests to individual assets and liabilities.

Qualitative Assessment

In considering the step zero approach to testing goodwill for impairment, we perform a qualitative analysis evaluating factors including, but not limited to, macro economic conditions, market and industry conditions, competitive environment, operational stability and the overall financial performance of the reporting units including cost factors and budgeted-to-actual revenue results.

During the fourth quarter of fiscal year 2012, we utilized a qualitative analysis for several reporting units where no significant change occurred and no potential impairment indicators existed since the previous annual evaluation of goodwill and concluded it is more likely than not that the fair value is more than its carrying value on a reporting unit basis.

Our next annual evaluation of the goodwill by reporting unit will be performed during the fourth quarter of fiscal year 2013. If we were to encounter challenging economic conditions, such as a decline in our operating results, an unfavorable industry or macroeconomic environment, a substantial decline in our stock price, or any other adverse change in market conditions, we may be required to perform the two-step quantitative goodwill impairment analysis. In addition, if such conditions have the effect of changing one of the critical assumptions or estimates we use to calculate the value of our goodwill, we may be required to record goodwill impairment charges in future periods, whether in connection with our next annual impairment assessment or prior to that, if any triggering event occurs outside of the quarter during which the annual goodwill impairment assessment is performed. It is not possible at this time to determine if any such future impairment charge would result or, if it does, whether such charge would be material to our results of operations.

Quantitative Assessment

We utilized a quantitative assessment to test goodwill impairment for one reporting unit during the fourth quarter of fiscal year 2012 and concluded that there was no impairment as the fair value of our reporting unit exceeded its carrying value by approximately 30%. This assessment was based upon a discounted cash flow analysis and an analysis of market comparables.

Our estimates of cash flow were based upon, among other things, certain assumptions about expected future operating performance, such as revenue growth rates, operating margins, risk-adjusted discount rates, and future economic and market conditions. Our estimates of discounted cash flow may differ from actual cash flow due to, among other things, economic conditions, changes to our business model or changes in operating performance. Additionally, certain estimates of discounted cash flow involve businesses with limited financial history and developing revenue models, which increases the risk of differences between the projected and actual performance. The long-term financial forecasts that we utilize represent the best estimate that we have at this time and we believe that its underlying assumptions are reasonable. Significant differences between our estimates and actual cash flow could materially affect our future financial results, which could impact our future estimates of the fair value of our reporting unit. Determining the fair value of our reporting unit also requires us to use judgment in the selection of appropriate market comparables.

Any significant reductions in the actual amount of cash flows realized by our reporting unit, reductions in the value of market comparables, or reductions in our market capitalization could impact future estimates of the fair value of our reporting unit. Such events could ultimately result in a charge to our earnings in future periods due to the potential for a write-down of the goodwill associated with our reporting unit.

Cash Equivalents and Marketable Securities

Cash equivalents consist of financial instruments which are readily convertible into cash and have original maturities of three months or less at the time of acquisition. Marketable securities consist primarily of highly liquid investments with maturities of greater than three months when purchased. We generally classify our marketable securities at the date of acquisition as available- for- sale. These securities are reported at fair value with the related unrealized gains and losses included in accumulated other comprehensive income (loss), a component of stockholder's equity, net of tax. Any unrealized losses which are considered to be other-than-temporary impairments are recorded in the other income (expense) section of our consolidated statements of operations. Realized gains (losses) on the sale of marketable securities are determined using the specific-identification method and recorded in the other income (expense) section of our consolidated statements of operations. Please refer to Note 10 of the Notes to the Consolidated Financial Statements in Part IV, Item 15 of this Form 10-K. We measure our cash equivalents and marketable securities at fair value. The fair values of our financial assets and liabilities are determined using quoted market prices of identical assets or quoted market prices of similar assets from active markets. Our Level 1 assets consist of our money market funds. We classify securities within Level 1 assets when the fair value is obtained from real time quotes for transactions in active exchange markets involving identical assets. Our available-for- sale securities are classified as having Level 2 inputs. Our Level 2 assets are valued utilizing a market approach where the market prices of similar assets are provided by a variety of independent industry standard data providers to our investment custodian. Most of our cash equivalents and marketable securities are valued based on Level 2 inputs. We do not have any investment classified as Level 3 as of January 29, 2012.

All of our available-for-sale investments are subject to a periodic impairment review. We record a charge to earnings when a decline in fair value is significantly below cost basis and judged to be other-than-temporary, or have other indicators of impairments. If the fair value of an available-for-sale debt instrument is less than its amortized cost basis, an other-than - temporary impairment is triggered in circumstances where (1) we intend to sell the instrument, (2) it is more likely than not that we will be required to sell the instrument before recovery of its amortized cost basis, or (3) a credit loss exists where we do not expect to recover the entire amortized cost basis of the instrument. If we intend to sell or it is more likely than not that we will be required to sell the available-for-sale debt instrument before recovery of its amortized cost basis, we recognize an other-than- temporary impairment in earnings equal to the entire difference between the debt instruments' amortized cost basis and its fair value. For available-for-sale debt instruments that are considered other-than-temporarily impaired due to the existence of a credit loss, if we do not intend to sell and it is more likely than not that we will be required to sell the instrument before recovery of its remaining amortized cost basis (amortized cost basis less any current-period credit loss), we separate the amount of the impairment into the amount that is credit related and the amount due to all other factors. The credit loss component is recognized in earnings.

Stock-based Compensation

Our stock-based compensation cost for equity awards is measured at grant date, based on the fair value of the awards, and is recognized as expense over the requisite employee service period. We recognize stock-based compensation expense using the straight-line attribution method. We estimate the fair value of employee stock options on the date of grant using a binomial model and we use the closing trading price of our common stock on the date of grant as the fair value of awards of restricted stock units, or RSUs. The determination of fair value of share-based payment awards on the date of grant using an option-pricing model is affected by our stock price as well as assumptions regarding a number of highly complex and subjective variables. These variables include, but are not limited to, the expected stock price volatility over the term of the awards, actual and projected employee stock option exercise behaviors, vesting schedules, death and disability probabilities, expected volatility and risk-free interest. Our management has determined that the use of implied volatility is expected to be more reflective of market conditions and, therefore, can reasonably be expected to be a better indicator of our expected volatility than historical volatility. The risk-free interest rate assumption is based upon observed interest rates appropriate for the term of our employee stock options. The dividend yield assumption is based on the history and expectation of dividend payouts. We began segregating options into groups for employees with relatively homogeneous exercise behavior in order to calculate the best estimate of fair value using the binomial valuation model.

Using the binomial model, we estimated the fair value of the stock options granted under our stock option plans using the following assumptions during the fiscal year ended January 29, 2012:

Weighted average expected life of stock options (in years)	3.0-5.4
Risk free interest rate	1.9%-3.8%
Volatility	46%-65%
Dividend yield	—

Accounting standards also require forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. Forfeitures were estimated based on our historical experience. If factors change and we employ different assumptions in the application of accounting standards in future periods, the compensation expense that we record under these accounting standards may differ significantly from what we have recorded in the current period.

Our stock-based compensation expense for employee stock purchase plan is recognized using an accelerated amortization method. We used the Black-Scholes model to estimate the fair value of shares issued under our employee stock purchase plan during the fiscal year ended January 29, 2012, using the following assumptions:

Weighted average expected life of stock options (in years)	0.5-2.0
Risk free interest rate	0.1%-0.7%
Volatility	57%-61%
Dividend yield	—

Litigation, Investigation and Settlement Costs

From time to time, we are involved in legal actions and/or investigations by regulatory bodies. We are aggressively defending our current litigation matters for which we are responsible. However, there are many uncertainties associated with any litigation or investigations, and we cannot be certain that these actions or other third-party claims against us will be resolved without costly litigation, fines and/or substantial settlement payments. If that occurs, our business, financial condition and results of operations could be materially and adversely affected. If information becomes available that causes us to determine that a loss in any of our pending litigation, investigations or settlements is probable, and we can reasonably estimate the loss associated with such events, we will record the loss in accordance with U.S.GAAP. However, the actual liability in any such litigation or investigations may be materially different from our estimates, which could require us to record additional costs.

Results of Operations

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

	Year Ended		
	January 29, 2012	January 30, 2011	January 31, 2010
Revenue	100.0%	100.0 %	100.0 %
Cost of revenue	48.6	60.2	64.6
Gross profit	51.4	39.8	35.4
Operating expenses:			
Research and development	25.1	24.0	27.3
Sales, general and administrative	10.1	10.2	11.0
Restructuring charges and other	—	—	—
Legal settlement	—	(1.6)	—
Total operating expenses	35.2	32.6	38.3
Income (loss) from operations	16.2	7.2	(2.9)
Interest and other income, net	0.4	0.4	0.5
Income (loss) before income taxes	16.6	7.6	(2.4)
Income tax expense (benefit)	2.1	0.5	(0.4)
Net income (loss)	14.5%	7.1 %	(2.0)%

Fiscal Years Ended January 29, 2012, January 30, 2011,and January 31, 2010

Revenue

Fiscal Year 2012 vs. Fiscal Year 2011

Revenue was $4.00 billion for fiscal year 2012 and $3.54 billion for fiscal year 2011, an increase of 12.8%. A discussion of our revenue results for each of our reporting segments is as follows:

GPU Business. GPU Business revenue was $2.54 billion for fiscal year 2012 compared to $2.52 billion for fiscal year 2011. The increase is primarily attributable to revenue from the cross licensing agreement with Intel and increased desktop and notebook product revenue. The increase in desktop and notebook revenues came from continued market penetration of our Fermi architecture based GPUs. Strength of our Fermi architecture and resultant wins on the Sandy Bridge platform contributed to increase in notebook revenues. Offsetting these increases were decreases in sales of MCP products as we continued to phase out our chipset product line. Additionally, memory sales also decreased due to lower sales volume as decreases in market price for memory made it attractive for add-in card manufacturers to buy memory directly from market rather than from us.

PSB. PSB revenue increased by 5.6% to $864.3 million for fiscal year 2012 as compared to $818.6 million for fiscal year 2011. The average selling price, or ASP, for workstation products improved due to the recovery of corporate spending following the economic recession that began during fiscal year 2009. Offsetting this was a decrease in our Tesla product revenues from the prior year primarily due to lower sales volume.

CPB. CPB revenue increased by 199.2% to $591.2 million for fiscal year 2012 as compared to $197.6 million for fiscal year 2011. This increase in CPB revenue was primarily driven by sales growth from the acceleration of our Tegra 2 smartphone and tablet products in the mobile market and in embedded product revenues primarily related to the entertainment markets. Revenue from development arrangements and royalties from game console-related products remained stable in fiscal year 2012 when compared to fiscal year 2011.

Fiscal Year 2011 vs. Fiscal Year 2010

Revenue was $3.54 billion for fiscal year 2011 and $3.33 billion for fiscal year 2010, an increase of 7%. A discussion of our revenue results for each of our operating segments is as follows:

GPU Business. GPU Business revenue decreased by 5% to $2.52 billion for fiscal year 2011 compared to $2.66 billion for fiscal year 2010. The decrease was primarily the result of a decline in sales of MCP products as we continued to phase out our chipset product line. Also sales of mainstream desktop GPU decreased as a result of lower unit shipments driven by weakness in our end customer markets related to unstable economic conditions and increased competition in the lower-end market segments. Offsetting these declines were increases in sales of our notebook GPU, high-end desktop GPU and memory products. The growth in sales of notebook GPU products was driven by a continuing shift in the market demand towards notebook PCs from desktop PCs as reported in the December 2010 PC Graphics Report from Mercury Research. The growth in memory sales and high-end desktop GPU products was driven primarily by the launch of our new generation of GPUs with Fermi architecture.

PSB. PSB revenue increased by 60% to $818.6 million for fiscal year 2011 as compared to $510.0 million for fiscal year 2010. Both the ASP and unit shipments of professional workstation products increased due to the recovery of corporate spending following the economic recession that began during fiscal year 2009. In addition, we saw strong growth in our Tesla products from the prior year as our high performance computing line gained traction fueled by the Fermi architecture release.

CPB. CPB revenue increased by 27% to $197.6 million for fiscal year 2011 as compared to $156.0 million for fiscal year 2010. This increase in CPB revenue was primarily driven by sales growth from ramp up in our Tegra 2 products, offset by decreases in embedded product revenues primarily related to the entertainment markets. Revenue from development arrangements and royalties from game console-related products increased slightly in fiscal year 2011 when compared to fiscal year 2010.

Concentration of Revenue

We generated 78%, 83% and 84% of our total revenue for fiscal years2012, 2011 and 2010, respectively, from sales to customers outside the United States and other Americas. Revenue by geographic region is allocated to individual countries based on the location to which the products are initially billed even if the foreign contract equipment manufacturers, add-in board and motherboard manufacturers' revenue is attributable to end customers in a different location.

Revenue from significant customers, those representing 10% or more of total revenue for the respective dates, is summarized as follows:

	Year Ended		
	January 29, 2012	**January 30, 2011**	**January 31, 2010**
Revenue:			
Customer A	11%	—	—
Customer B	—	12%	12%

Gross Profit and Gross Margin

Gross profit consists of total revenue, net of allowances, less cost of revenue. Cost of revenue consists primarily of the cost of semiconductors purchased from subcontractors, including wafer fabrication, assembly, testing and packaging, manufacturing support costs, including labor and overhead associated with such purchases, final test yield fallout, inventory and warranty provisions and shipping costs. Cost of revenue also includes development costs for license, service arrangements and stock-based compensation related to personnel associated with manufacturing.

Gross margin is the percentage of gross profit to revenue. Our gross margin was51.4%, 39.8% and 35.4% for fiscal years 2012, 2011 and 2010, respectively. Our gross margin is significantly impacted by the mix of products we sell and can vary in any period depending on that product mix.

Our strategy for improving our gross margin relies upon delivering competitive product offerings that allow us to maintain our market leadership position and expand our addressable markets, lowering our product costs by introducing product architectures that take advantage of smaller process geometries and improving our product mix. However, we may experience difficulties in the transition to new manufacturing processes. We expect gross margin to decrease within the range of 48.2% to 50.2% during the first quarter of fiscal year 2013, primarily driven by our transition to 28nm technology and transition to a wafer buy model where the costs of our products are based on the price per wafer versus price per functional die.

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

Fiscal Year 2012 vs. Fiscal Year 2011

Our gross margin increased to 51.4% in fiscal year 2012 from 39.8% in fiscal year 2011. The improvement in gross margin was driven primarily due to increased unit sales and a richer product mix of our desktop GPU and notebook GeForce GPU products and workstation products and the addition of revenue in the current year from the cross licensing arrangement with Intel. Manufacturing cost efficiencies and strong management of inventory also helped margin improve in the current fiscal year. Other favorable impacts to gross margin were the absence in fiscal year 2012 of a net charge to cost of revenue in the amount of $181.2 million recorded in fiscal year 2011 related to a weak die/packing material set and lower provisions for net inventory reserves in fiscal year 2012 compared to fiscal year 2011.

Our gross margin was favorably impacted by sales of products that were previously written down and sales of such items improved gross margin by approximately 1.8% and 1.9% in fiscal years 2012 and 2011, respectively. Offsetting these releases are provisions for new inventory reserves. The net effect to gross margin from inventory reserves and sales of items previously written down was a 0.5% favorable impact in fiscal year 2012 and 3.0% unfavorable impact in fiscal year 2011.

GPU Business. The gross margin of our GPU Business increased duringfiscal year 2012 when compared to fiscal year 2011. This was primarily due to lower provisions for net inventory reserves in fiscal year 2012 compared to fiscal year 2011 and additional warranty accruals arising from a weak die/packaging material set recorded in fiscal year 2011. Revenue from our cross licensing arrangement with Intel also contributed to gross margin increase. In addition, higher unit sales and richer product mix of our desktop and notebook GeForce GPU products also improved gross margin for the GPU business.

PSB. The gross margin of our PSB remained stable during fiscal year 2012 as compared to fiscal year 2011 for both Quadro and Tesla products.

CPB. The gross margin of our CPB decreased during fiscal year 2012 as compared to fiscal year 2011. This decrease was a result of a change in product mix driven by a lower mix of revenue from higher margin products and services such as development arrangements and royalties from game console-related products and a higher mix of revenue from our Tegra products, which grew substantially during the year.

Fiscal Year 2011 vs. Fiscal Year 2010

Our gross margin increased to 39.8% in fiscal year 2011 from 35.4% for fiscal year 2010. The improvement in gross margin was driven primarily due to increased unit sales, mix and better ASPs of our high-end desktop GPU, notebook GPU and workstation products. Cost efficiencies and pricing decisions also helped margin improve in the current fiscal year. Additionally, fiscal year 2010 included $11.4 million charge related to the our tender offer to purchase certain stock options for personnel related to manufacturing which resulted in an adverse impact on gross margins that did not occur in fiscal year 2011.

Offsetting these favorable impacts, we recorded a net charge to cost of revenue in the amount of $181.2 million in fiscal year 2011 compared to $95.9 million in fiscal year 2010 related to a weak die/packing material set that was used in certain versions of our previous generation chips. Our gross margin was favorably impacted by sales of products that were previously written down and sales of such items improved gross margin by approximately 1.9% and 1.6% in fiscal years 2011 and 2010, respectively. Offsetting these releases are provisions for new inventory reserves. The net effect to gross margin from inventory reserves and sales of items previously written down was a 3.0% unfavorable impact in fiscal year 2011 and a 0.2% favorable impact in fiscal year 2010.

GPU Business. The gross margin of our GPU Business remained comparable during fiscal year 2011 and fiscal year 2010. While higher inventory reserves due to future demand concerns in the first half of fiscal year 2011 and additional warranty accruals arising from a weak die/packaging material set reduced gross margin for fiscal year 2011 when compared to fiscal year 2010, this was more than offset by higher unit sales, mix and ASPs in the high-end desktop and notebook product lines.

PSB. The gross margin of our PSB remained flat during fiscal year 2011 as compared to fiscal year 2010. Improvements in gross margin as a result of better ASPs and shipment volumes in our Quadro product line were offset by higher inventory reserves recorded in fiscal year 2011, when compared to fiscal year 2010. Tesla gross margin improved due to better production efficiencies was driven by lower product cost and higher unit sales, while ASPs remained stable.

CPB. The gross margin of our CPB increased during fiscal year 2011 as compared to fiscal year 2010. This increase was a result of better ASPs and higher unit shipment of our Tegra products as well as slightly better revenue from higher margin products and services, including development arrangements and royalties from game console-related products, in the comparative periods.

Operating Expenses

	Year Ended				Year Ended			
	January 29, 2012	January 30, 2011	$ Change	% Change	January 30, 2011	January 31, 2010	$ Change	% Change
	(In millions)				(In millions)			
Research and development expenses	$ 1,002.6	$ 848.8	$ 153.8	18.1%	$ 848.8	$ 908.9	$ (60.1)	(6.6)%
Sales, general and administrative expenses	405.6	361.5	44.1	12.2%	361.5	367.0	(5.5)	(1.5)%
Legal settlement	—	(57.0)	57.0	100.0%	(57.0)	—	(57.0)	(100.0)%
Total operating expenses	$ 1,408.2	$ 1,153.3	$ 254.9	22.1%	$ 1,153.3	$ 1,275.9	$ (122.6)	(9.6)%
Research and development as a percentage of net revenue	25.1%	24.0%			24.0%	27.3%		
Sales, general and administrative as a percentage of net revenue	10.1%	10.2%			10.2%	11.0%		

Research and Development

Fiscal Year 2012 vs. Fiscal Year 2011

Research and development expenses increased by $153.8 million, or 18.1%, year over year. Compensation and benefits increased by $83.7 million primarily related to growth in headcount. Stock based compensation increased by $22.5 million primarily due to a combination of a higher outlay of equity awards as a result of the increase in headcount, a higher average fair value for the awards that were granted during the year and higher expense from the employee stock purchase program. Development expenses increased by $9.0 million related to the ramp of our next-generation GPU architecture, Kepler, designed for 28nm technology and our next generation mobile computing architecture, Tegra 3. Depreciation and amortization increased by $8.8 million, driven primarily by amortization of new licenses acquired during the year. Also contributing to the increase were other acquisition-related costs of $12.4 million for compensation charges related to the retention program we have established for employees from our acquisition of Icera in June 2011 and $6.0 million of amortization expense for intangible assets associated with this acquisition.

Fiscal Year 2011 vs. Fiscal Year 2010

Research and development expenses decreased by $60.1 million, or 6.6%. The majority of the decrease was caused by stock-based compensation charges recorded during fiscal year 2010 of $90.5 million related to a tender offer that closed in March 2009. Depreciation and amortization decreased by $8.9 million due to assets being fully depreciated. These decreases were partially offset by an increase in compensation and benefits of $23.5 million primarily due to growth in headcount and an increase of $7.6 million for development expenses.

Sales, General and Administrative

Fiscal Year 2012 vs. Fiscal Year 2011

Sales, general and administrative expenses increased by $44.1 million, or 12.2%, year over year. Compensation and benefits increased by $29.5 million primarily attributable to headcount growth. Stock-based compensation increased by $10.5 million primarily due to a combination of a higher outlay of equity awards as a result of the increase in headcount, a higher average fair value for the awards that were granted during the year and higher expense from the employee stock purchase program. Also contributing to the increase were $4.4 million for transaction costs related to the acquisition of Icera, Inc., $3.5 million for compensation charges related to the retention program we have established for employees from the Icera acquisition and $2.2 million of amortization expense for intangible assets associated with this acquisition. Offsetting these increases were decreases in outside professional fees of $4.0 million due to lower litigation-related costs in the current year and a decrease in depreciation and amortization of $9.2 million due to certain software and lease hold improvements of headquarters buildings that became fully depreciated during the year.

Fiscal Year 2011 vs. Fiscal Year 2010

Sales, general and administrative expenses decreased by $5.5 million, or 1.5%. The majority of the decrease was caused by stock-based compensation charges recorded during fiscal year 2010 of $38.3 million related to a tender offer that closed in March 2009. Professional fees decreased by $10.6 million due to decreased legal service charges. Depreciation and amortization decreased by $4.2 million due to assets being fully depreciated. Offsetting these decreases was an increase in compensation and benefits of $28.1 million primarily attributable to growth in headcount. We had increases across discretionary spending areas such as $5.7 million for marketing, $3.2 million for contract labor, and $2.9 million for travel and entertainment to meet the increasing opportunities of our business as the economy recovers. Our expenses also increased by $15.0 million related to the settlement of the NVIDIA GPU Litigation case described in Note 14 of the Notes to the Consolidated Financial Statements in Part IV, Item 15 of this Form 10-K.

Legal Settlement

On January 10, 2011, we entered into a six-year cross licensing agreement with Intel and also mutually agreed to settle all outstanding legal disputes. The fair valued benefit prescribed to the legal settlement portion was $57.0 million and was recorded in the fourth quarter of fiscal year 2011.

We expect operating expenses to be approximately $383 million in the first quarter of fiscal year 2013.

Interest Income and Interest Expense

Interest income, net of interest expense consists of interest earned on cash, cash equivalents and marketable securities. Interest income, net of interest expense, increased to $16.1 million in fiscal year 2012 from $15.9 million in fiscal year 2011 primarily due to the result of higher average cash balances offset by lower interest rates. Interest income, net of interest expense, decreased to $15.9 million in fiscal year 2011 from $19.8 million in fiscal year 2010 primarily due to the result of lower interest rates on our investments.

Other Income (Expense), net

Other income and expense primarily consists of realized gains and losses on the sale of marketable securities and foreign currency translation. Other expense, net of other income was $1.0 million, $0.5 million, and $3.1 million in fiscal years 2012, 2011, and 2010, respectively. The fluctuation between these years was primarily due to other than temporary impairment of our investment in the money market funds held by the Reserve International Liquidity Fund, Ltd. that resulted in a charge of $5.6 million in fiscal year 2009, which was partially recovered in fiscal year 2011 for a gain of $3.0 million resulting from the final disbursement of this fund.

Income Taxes

We recognized income tax expense (benefit) of $82.3 million, $18.0 million, and $(14.3) million during fiscal years 2012, 2011, and 2010, respectively. Income tax expense (benefit) as a percentage of income (loss) before taxes, or our annual effective tax rate, was 12.4% in fiscal year 2012, 6.7% in fiscal year 2011, and 17.4% in fiscal year 2010.

Our effective tax rate on income or loss before tax for the fiscal years was lower than the United States federal statutory rate of 35% due to income or loss earned in jurisdictions where the tax rate is lower than the United States federal statutory tax rate of 35%, favorable recognition in these fiscal years of the U.S. federal research tax credit and the expiration of statutes of limitations in certain non-U.S. jurisdictions for which we had not previously recognized related tax benefits.

We expect our effective tax rate to be approximately 20% in the first quarter of fiscal 2013, excluding any discrete tax events that may occur, which, if realized, may increase or decrease our effective tax rate in such quarter.

Please refer to Note 15 of the Notes to the Consolidated Financial Statements in Part IV, Item 15 of this Form 10-K for additional information.

Liquidity and Capital Resources

	January 29, 2012	January 30, 2011
	(In millions)	
Cash and cash equivalents	$ 667.9	$ 665.4
Marketable securities	2,461.7	1,825.2
Cash, cash equivalents, and marketable securities	$ 3,129.6	$ 2,490.6

	Year Ended		
	January 29, 2012	January 30, 2011	January 31, 2010
		(In millions)	
Net cash provided by operating activities	$ 909.2	$ 675.8	$ 487.8
Net cash used in investing activities	$ (1,143.4)	$ (649.7)	$ (519.3)
Net cash provided by financing activities	$ 236.7	$ 192.0	$ 61.1

As of January 29, 2012, we had $3.13 billion in cash, cash equivalents and marketable securities, an increase of$639.0 million from the end of fiscal year2011. Our portfolio of cash equivalents and marketable securities is managed on our behalf by several financial institutions which are required to follow our investment policy, which requires the purchase of top-tier investment grade securities, the diversification of asset types and includes certain limits on our portfolio duration.

Operating activities

Operating activities generated cash of $909.2 million, $675.8 million and $487.8 million during fiscal years 2012, 2011 and 2010, respectively.

The cash provided by operating activities increased in fiscal year2012 when compared to fiscal year2011 primarily due to an increase in our net income and favorable changes in operating assets and liabilities compared to fiscal year 2011. For example, accounts payable increased as a result of the timing of payments to vendors and inventory decreased as a result of an increase in inventory turnover. Higher non-cash charges in earnings including stock-based compensation and depreciation and amortization also contributed to the increase in cash provided by operating activities.

The cash provided by operating activities increased in fiscal year 2011 when compared to fiscal year 2010 primarily due to an increase in our net income and favorable changes in operating assets and liabilities compared to fiscal year 2010. For example, accounts receivable decreased due to improved sales linearity and stronger collections during the year, while accrued and other liabilities increased primarily due to an additional net charge for incremental repair and replacement costs from a weak die/packaging material set. Higher non-cash charges in earnings including stock-based compensation and depreciation and amortization also contributed to the increase in cash provided by operating activities.

The cash provided by operating activities in fiscal year 2010 increased when compared to fiscal year 2009 was primarily due to changes in operating assets and liabilities, including increases in accounts payable resulting from the timing of payments to vendors and a decrease in inventory resulting from an increase in inventory turnover. Additionally, while we experienced a net loss in fiscal year 2010 of $68.0 million, versus a net loss of $30.0 million in fiscal year 2009, higher non-cash charges to earnings included stock-based compensation and depreciation and amortization also contributed to the increase in cash provided from operations.

Investing activities

Investing activities have consisted primarily of purchases and sales of marketable securities, acquisition of businesses and purchases of property and equipment, which include leasehold improvements for our facilities and intangible assets. Investing activities used cash of $1,143.4 million, $649.7 million and $519.3 million during fiscal years 2012, 2011 and 2010, respectively.

Cash used in investing activities for fiscal year 2012 increased by $493.7 million from fiscal 2011 primarily due to the acquisition of Icera in the second quarter of fiscal year 2012 and increased purchases of marketable securities during fiscal year 2012. Additionally, we used $138.7 million towards capital expenditures in fiscal year 2012. Capital expenditures included purchase of new research and development equipment, testing equipment to support our increased production requirements, technology licenses, software, intangible assets and leasehold improvements at our facilities in various locations.

Investing activities for fiscal year 2011 used cash of $649.7 million towards the purchase of marketable securities, net of proceeds from sales of marketable securities. Additionally, we used $97.9 million towards capital expenditures in fiscal year 2011. Capital expenditures included purchase of new research and development equipment, testing equipment to support our increased production requirements, technology licenses, software, intangible assets and leasehold improvements at our facilities in various international locations.

Investing activities for fiscal year 2010 used cash of $441.5 million towards the purchase of marketable securities, net of proceeds from sales of marketable securities. Additionally, we used $77.6 million towards capital expenditures in fiscal year 2010. Capital expenditures included purchase of new research and development equipment, testing equipment to support our increased production requirements, technology licenses, software, intangible assets and leasehold improvements at our facilities in various international locations.

Financing activities

Financing activities provided cash of $236.7 million, $192.0 million, and $61.1 million during fiscal years 2012, 2011, and 2010, respectively.

Net cash provided by financing activities in fiscal year 2012 was primarily due to cash proceeds of $195.9 million from common stock issued under our employee stock plans, and a non-cash tax benefit of $52.8 million for the gross windfall related to employee stock based compensation.

Net cash provided by financing activities in fiscal year 2011 was primarily due to cash proceeds of $177.3 million from common stock issued under our employee stock plans, and a non-cash tax benefit of $15.3 million for the gross windfall related to employee stock based compensation.

Net cash provided by financing activities in fiscal year 2010 was primarily due to cash proceeds of $138.0 million from common stock issued under our employee stock plans, offset by $78.1 million used for the purchase of outstanding stock options related to a tender offer that closed in March 2009. Please refer to Note 2 of the Notes to the Consolidated Financial Statements in Part IV, Item 15 of this Form 10-K for further discussion regarding the cash tender offer.

Liquidity

Our primary source of liquidity is cash generated by our operations. Our investment portfolio consisted of cash and cash equivalents, commercial paper, mortgage-backed securities issued by government-sponsored enterprises, money market funds and debt securities of corporations, municipalities and the United States government and its agencies. These investments are denominated in United States dollars. As of January 29, 2012, we did not have any investments in auction-rate preferred securities.

All of the cash equivalents and marketable securities are treated as “available-for-sale”. Investments in both fixed rate and floating rate interest earning instruments carry a degree of interest rate risk. Fixed rate debt securities may have their market value adversely impacted due to a rise in interest rates, while floating rate securities may produce less income than expected if interest rates fall. Due in part to these factors, our future investment income may fall short of expectations due to changes in interest rates or if the decline in fair value of our publicly traded debt or equity investments is judged to be other-than-temporary. We may suffer losses in principal if we are forced to sell securities that decline in market value due to changes in interest rates. However, because any debt securities we hold are classified as “available-for-sale,” no gains or losses are realized in our statement of operations due to changes in interest rates unless such securities are sold prior to maturity or unless declines in market values are determined to be other-than-temporary. These securities are reported at fair value with the related unrealized gains and losses included in accumulated other comprehensive income, a component of stockholders’ equity, net of tax.

As of January 29, 2012 and January 30, 2011, we had $3.13 billion and $2.49 billion, respectively, in cash, cash equivalents and marketable securities. Our investment policy requires the purchase of top-tier investment grade securities, the diversification of asset types and includes certain limits on our portfolio duration, as specified in our investment policy guidelines. These guidelines also limit the amount of credit exposure to any one issue, issuer or type of instrument. As of January 29, 2012, we were in compliance with our investment policy. As of January 29, 2012, our investments in U.S. government agencies and U.S. government sponsored enterprises represented approximately 51% of our total investment portfolio, while the financial sector accounted for approximately 24% of our total investment portfolio. All of our investments are with A/A2 or better rated securities.

We performed an impairment review of our investment portfolio as of January 29, 2012. Based on our quarterly impairment review, we concluded that our investments were appropriately valued and did not record any impairment during fiscal year 2012. In the fourth quarter of fiscal year 2011 we recovered $3.1 million of the other than temporary impairment charge previously recorded. This was recorded as other income in fiscal year 2011.

Net realized gains, excluding any impairment charges, were $0.4 million, $1.5 million and $1.8 million for fiscal years 2012, 2011 and 2010 respectively. As of January 29, 2012, we had a net unrealized gain of $11.5 million, which was comprised of gross unrealized gains of $12.0 million, offset by $0.5 million of gross unrealized losses. As of January 30, 2011, we had a net unrealized gain of $10.5 million, which was comprised of gross unrealized gains of $11.0 million, offset by $0.5 million of gross unrealized losses.

Our accounts receivable are highly concentrated and make us vulnerable to adverse changes in our customers' businesses, and to downturns in the industry and the worldwide economy. Two customers accounted for approximately 27% of our accounts receivable balance at January 29, 2012. While we strive to limit our exposure to uncollectible accounts receivable using a combination of credit insurance and letters of credit, difficulties in collecting accounts receivable could materially and adversely affect our financial condition and results of operations. These difficulties are heightened during periods when economic conditions worsen. We continue to work directly with more foreign customers and it may be difficult to collect accounts receivable from them. We maintain an allowance for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. This allowance consists of an amount identified for specific customers and an amount based on overall estimated exposure. If the financial condition of our customers were to deteriorate, resulting in an impairment in their ability to make payments, additional allowances may be required, we may be required to defer revenue recognition on sales to affected customers, and we may be required to pay higher credit insurance premiums, any of which could adversely affect our operating results. In the future, we may have to record additional reserves or write-offs and/or defer revenue on certain sales transactions which could negatively impact our financial results.

Our cash balances are held in numerous locations throughout the world, including substantial amounts held outside of the United States. As of January 29, 2012, we had cash, cash equivalents and marketable securities of $1.23 billion held within the United States and $1.90 billion held outside of the United States. Most of the amounts held outside the United States may be repatriated to the United States but, under current law, would be subject to U.S. federal income taxes, less applicable foreign tax credits. Further, repatriation of some foreign balances may be restricted by local laws. As of January 29, 2012, we have not provided for U.S. federal and state income taxes on approximately $1.29 billion of undistributed earnings of non-United States subsidiaries, as such earnings are considered indefinitely reinvested outside the United States. Although we have no current need to do so, if we repatriate foreign earnings for cash requirements in the United States, we would incur U.S. federal and state income tax, less applicable foreign tax credits, and reduced by the current amount of our U.S. federal and state net operating loss and other tax credit carryforwards. Further, in addition to the $1.23 billion of cash, cash equivalents and marketable securities held within the United States and available to fund our U.S. operations and any other U.S. cash needs, we have access to external sources of financing if cash is needed in the United States other than by repatriation of foreign earnings where U.S. income tax may otherwise be due. Accordingly, we do not reasonably expect any material impact on our business, as a whole, or to our financial flexibility with respect to our current cash balances held outside of the United States.

Patent Cross License Agreement

On January 10, 2011, we entered into a new six-year patent cross licensing agreement, or the License Agreement, with Intel. Under the License Agreement, Intel has granted to NVIDIA and its qualified subsidiaries, and NVIDIA has granted to Intel and Intel's qualified subsidiaries, a non-exclusive, non-transferable, worldwide license, without the right to sublicense to all patents that are either owned or controlled by the parties at any time that have a first filing date on or before March 31, 2017, to make, have made (subject to certain limitations), use, sell, offer to sell, import and otherwise dispose of certain semiconductor- and electronic-related products anywhere in the world. NVIDIA's rights to Intel's patents have certain specified limitations, including but not limited to, NVIDIA was not granted a license to: (1) certain microprocessors, defined in the License Agreement as "Intel Processors" or "Intel Compatible Processors;" (2) certain chipsets that connect to Intel Processors; or (3) certain flash memory products. In connection with the License Agreement, NVIDIA and Intel mutually agreed to settle all outstanding legal disputes. Under the License Agreement, Intel will pay NVIDIA an aggregate amount of $1.5 billion, payable in annual installments, as follows: a $300 million payment on each of January 18, 2011, January 13, 2012 and January 15, 2013 and a $200 million payment on each of January 15, 2014, 2015 and 2016. Please refer to Note 4 of the Notes to the Consolidated Financial Statements in Part IV, Item 15 of this Form 10-K for further information regarding this cross license and the settlement.

Cash Tender Offer

During fiscal year 2010, our Board of Directors approved a cash tender offer for certain employee stock options. The tender offer commenced on February 11, 2009 and was completed during the first quarter of fiscal year 2010. The tender offer applied to outstanding stock options held by employees with an exercise price equal to or greater than $17.50 per share. None of the non-employee members of our Board of Directors or our officers who file reports under Section 16(a) of the Securities Exchange Act of 1934, as amended, or the Securities Exchange Act,were eligible to participate in the tender offer. All eligible options with exercise prices equal to or greater than $17.50 per share but less than $28.00 per share were eligible to receive a cash payment of $3.00 per option in exchange for the cancellation of the eligible option. All eligible options with exercise prices equal to or greater than $28.00 per share were eligible to receive a cash payment of $2.00 per option in exchange for the cancellation of the eligible option.

A total of 28.5 million options were tendered under the offer for an aggregate cash purchase price of $78.1 million, which was paid in exchange for the cancellation of the eligible options. As a result of the tender offer, we incurred a charge of $140.2 million consisting of $124.1 million related to the remaining unamortized stock based compensation expense associated with the unvested portion of the options tendered in the offer, $11.6 million related to stock-based compensation expense resulting from amounts paid in excess of the fair value of the underlying options, plus $4.5 million related to associated payroll taxes, professional fees and other costs.

Please refer to Note 2 of the Notes to the Consolidated Financial Statements in Part IV, Item 15 of this Form 10-K for further discussion regarding the cash tender offer.

Stock Repurchase Program

Our Board of Directors has authorized us, subject to certain specifications, to repurchase shares of our common stock up to an aggregate maximum amount of $2.7 billion through May 2013. The repurchases will be made from time to time in the open market, in privately negotiated transactions, or in structured stock repurchase programs, and may be made in one or more larger repurchases, in compliance with Rule 10b-18 of the Securities Exchange Act, subject to market conditions, applicable legal requirements, and other factors. The program does not obligate NVIDIA to acquire any particular amount of common stock and the program may be suspended at any time at our discretion. As part of our share repurchase program, we have entered into, and we may continue to enter into, structured share repurchase transactions with financial institutions. These agreements generally require that we make an up-front payment in exchange for the right to receive a fixed number of shares of our common stock upon execution of the agreement, and a potential incremental number of shares of our common stock, within a pre-determined range, at the end of the term of the agreement.

We did not enter into any structured share repurchase transactions or otherwise purchase any shares of our common stock during fiscal year ended January 29, 2012. Through January 29, 2012, we have repurchased an aggregate of 90.9 million shares under our stock repurchase program for a total cost of $1.46 billion. As of January 29, 2012, we are authorized, subject to certain specifications, to repurchase shares of our common stock up to $1.24 billion through May 2013.

Operating Capital and Capital Expenditure Requirements

We believe that our existing cash balances and anticipated cash flows from operations will be sufficient to meet our operating, acquisition and capital requirements for at least the next twelve months. However, there is no assurance that we will not need to raise additional equity or debt financing within this time frame. Additional financing may not be available on favorable terms or at all and may be dilutive to our then-current stockholders. We also may require additional capital for other purposes not presently contemplated. If we are unable to obtain sufficient capital, we could be required to curtail capital equipment purchases or research and development expenditures, which could harm our business. Factors that could affect our cash used or generated from operations and, as a result, our need to seek additional borrowings or capital include:

- decreased demand and market acceptance for our products and/or our customers' products;
- inability to successfully develop and produce in volume production our next-generation products;
- competitive pressures resulting in lower than expected average selling prices; and
- new product announcements or product introductions by our competitors.

We expect to spend approximately $140.0 million to $180.0 million for capital expenditures during fiscal year 2013, primarily for property development, leasehold improvements, software licenses, emulation equipment, computers and engineering workstations. In addition, we may continue to use cash in connection with the acquisition of new businesses or assets.

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For additional factors see “Item 1A. Risk Factors - Risks Related to Our Business, Industry and Partners -*Our revenue may fluctuate while our operating expenses are relatively fixed, which makes our results difficult to predict and could cause our results to fall short of expectations.*”

Product Defect

Our products are complex and may contain defects or experience failures due to any number of issues in design, fabrication, packaging, materials and/or use within a system. If any of our products or technologies contains a defect, compatibility issue or other error, we may have to invest additional research and development efforts to find and correct the issue. Such efforts could divert our management’s and engineers’ attention from the development of new products and technologies and could increase our operating costs and reduce our gross margin. In addition, an error or defect in new products or releases or related software drivers after commencement of commercial shipments could result in failure to achieve market acceptance or loss of design wins. Also, we may be required to reimburse customers, including for customers’ costs to repair or replace the products in the field, which could cause our revenue to decline. A product recall or a significant number of product returns could be expensive, damage our reputation and could result in the shifting of business to our competitors. Costs associated with correcting defects, errors, bugs or other issues could be significant and could materially harm our financial results.

As of January 29, 2012, we recorded a total cumulative net charge of $475.9 million, of which $466.4 million has been charged against cost of revenue and the remainder has been charged to sales, general and administrative to cover customer warranty, repair, return, replacement and other costs arising from a weak die/packaging material set in certain versions of our previous generation MCP and GPU products and used in notebook configurations. Included in the charge are the costs of implementing a settlement with the plaintiffs of a putative consumer class action lawsuit related to this same matter and other related estimated consumer class action settlements.

The previous generation MCP and GPU products that are impacted were included in a number of notebook products that were shipped and sold in significant quantities. Certain notebook configurations of these products are failing in the field at higher than normal rates. Testing suggests a weak material set of die/package combination, system thermal management designs, and customer use patterns are contributing factors for these failures. We have worked with our customers to develop and have made available for download a software driver to cause the system fan to begin operation at the powering up of the system and reduce the thermal stress on these chips. We have also recommended to our customers that they consider changing the thermal management of the products in their notebook system designs. We intend to fully support our customers in their repair and replacement of these impacted products that fail, and their other efforts to mitigate the consequences of these failures. The weak die/packaging material combination is not used in any of our products that are currently in production.

Contractual Obligations

The following table summarizes our contractual obligations as of January 29, 2012:

Contractual Obligations	**Total**	**Within 1 Year**	**2-3 Years**	**4-5 Years**	**After 5 Years**	**All Other**
	(In thousands)					
Operating leases	$ 158,903	$ 34,567	$ 52,540	$ 38,699	$ 33,097	$ —
Capital lease	35,540	4,821	9,813	10,144	10,762	—
Purchase obligations (1)	561,331	561,331	—	—	—	—
Uncertain tax positions, interest and penalties (2)	147,819	—	—	—	—	147,819
Capital purchase obligations	40,503	40,503	—	—	—	—
Total contractual obligations	$ 944,096	$ 641,222	$ 62,353	$ 48,843	$ 43,859	$ 147,819

(1) Represents our inventory purchase commitments as of January 29, 2012.

(2) Represents unrecognized tax benefits of $147.8 million which consists of $53.5 million recorded in non-current income taxes payable and $84.8 million reflected as a reduction to the related deferred tax assets, and the related interest and penalties on the non-current income tax payable of $9.5 million as of January 29, 2012. We are unable to reasonably estimate the timing of any potential tax liability or interest/penalty payments in individual years due to uncertainties in the underlying income tax positions and the timing of the effective settlement of such tax positions.

Off-Balance Sheet Arrangements

As of January 29, 2012, we had no material off-balance sheet arrangements as defined in Regulation S-K 303(a)(4)(ii).

Adoption of New and Recently Issued Accounting Pronouncements

Please see Note 1 of the Notes to the Consolidated Financial Statements in Part IV, Item 15 of this Form 10-K for a discussion of adoption of new and recently issued accounting pronouncements.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Investment and Interest Rate Risk

As of January 29, 2012 and January 30, 2011, we had $3.13 billion and $2.49 billion, respectively, in cash, cash equivalents and marketable securities. We invest in a variety of financial instruments, consisting principally of cash and cash equivalents, asset-backed securities, commercial paper, mortgage-backed securities issued by Government-sponsored enterprises, money market funds and debt securities of corporations, municipalities and the United States government and its agencies. As of January 29, 2012, we did not have any investments in auction-rate preferred securities. Our investments are denominated in United States dollars.

All of the cash equivalents and marketable securities are treated as “available-for-sale.” Investments in both fixed rate and floating rate interest earning instruments carry a degree of interest rate risk. Fixed rate securities may have their market value adversely impacted due to a rise in interest rates, while floating rate securities may produce less income than expected if interest rates fall. Due in part to these factors, our future investment income may fall short of expectations due to changes in interest rates or if the decline in fair value of our publicly traded debt or equity investments is judged to be other-than-temporary. We may suffer losses in principal if we are forced to sell securities that decline in securities market value due to changes in interest rates. However, because any debt securities we hold are classified as “available-for-sale,” no gains or losses are realized in our Consolidated Statements of Operations due to changes in interest rates unless such securities are sold prior to maturity or unless declines in value are determined to be other-than-temporary. These securities are reported at fair value with the related unrealized gains and losses included in accumulated other comprehensive income (loss), a component of stockholders’ equity, net of tax.

As of January 29, 2012, we performed a sensitivity analysis on our floating and fixed rate financial investments. According to our analysis, parallel shifts in the yield curve of both plus or minus 0.5% would result in changes in fair values for these investments of approximately $13.7 million.

The financial turmoil that affected the banking system and financial markets and increased the possibility that financial institutions might consolidate or go out of business resulted in a tightening in the credit markets, a low level of liquidity in many financial markets, and extreme volatility in fixed income, credit, currency and equity markets. There could be a number of follow-on effects from the credit crisis on our business, including insolvency of key suppliers resulting in product delays; inability of customers, including channel partners, to obtain credit to finance purchases of our products and/or customer, including channel partner, insolvencies; and failure of financial institutions, which may negatively impact our treasury operations. Other income and expense could also vary materially from expectations depending on gains or losses realized on the sale or exchange of financial instruments; impairment charges related to debt securities as well as equity and other investments; interest rates; and cash, cash equivalent and marketable securities balances. Volatility in the financial markets and economic uncertainty increases the risk that the actual amounts realized in the future on our financial instruments could differ significantly from the fair values currently assigned to them. As of January 29, 2012, our investments in government agencies and government sponsored enterprises represented approximately 51% of our total investment portfolio, while the financial sector accounted for approximately 24% of our total investment portfolio. Of the financial sector investments, over half are guaranteed by the U.S. government. Substantially all of our investments are with A/A2 or better rated securities. If the fair value of our investments in these sectors was to decline by 2%-5%, the fair values of these investments would decline by approximately $43-$107 million.

Exchange Rate Risk

We consider our direct exposure to foreign exchange rate fluctuations to be minimal. Gains or losses from foreign currency remeasurement are included in “Other income (expense), net” in our Consolidated Financial Statements and to date have not been significant. The impact of foreign currency transaction gain (loss) included in determining net income (loss) for fiscal years 2012, 2011 and 2010 was $1.6 million, $(2.4) million and $(0.9) million, respectively. Currently, sales and arrangements with third-party manufacturers provide for pricing and payment in United States dollars, and, therefore, are not subject to exchange rate fluctuations. Increases in the value of the United States’ dollar relative to other currencies would make our products more expensive,