(D) Fiscal year 2010 includes impact of charge for a tender offer to purchase an aggregate of 28.5 million outstanding stock options for a total cash payment of $78.1 million. As a result of the tender offer, we incurred a charge of $140.2 million, consisting of the remaining unamortized stock-based compensation expenses associated with the unvested portion of the options tendered in the offer, stock-based compensation expense resulting from amounts paid in excess of the fair value of the underlying options, plus associated payroll taxes and professional fees.

(E) 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 had put on hold and $8.0 million for restructuring charges.

(F) On November 8, 2012, we initiated a quarterly dividend payment and announced our initial quarterly dividend of 7.5 cents per share, or 30 cents on an annual basis.

(G) 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 a visual computing company, connecting people through the powerful medium of computer graphics. In a world increasingly filled with visual displays, our graphics technologies let our customers interact with the world of digital ideas, information and entertainment with an efficiency that no other communication medium can provide. Visualization transcends cultural and language boundaries and enhances the quality of life whether the setting is work or pleasure and the task is mission critical or for entertainment.

We have long been known to millions around the world for creating the graphics chips used in PCs that bring video games to life. With our invention of the GPU, we introduced the world to the power of programmable shading, which defines modern computer graphics. Today, we reach well beyond PC graphics and games. Our energy-efficient processors are at the heart of products ranging from mobile devices to supercomputers. PC gamers choose our GPUs by name to enjoy immersive fantasy worlds. Our Tegra processors power smartphones, tablets and automobile infotainment systems. Professional designers use our GPUs to create visual effects in movies and design everything from audio headsets to commercial aircraft. And supercomputers take advantage of the massively parallel processing capabilities of our GPUs to accelerate a wide range of important applications, from simulations of viruses at the molecular level, to modern weather forecasting and global oil exploration.

NVIDIA's research and development in visual computing has yielded more than 5,000 patents granted or pending worldwide, and including ones covering inventions essential to modern computing.

Our businesses are based on two important technologies: the GPU and the Tegra processor. GPUs, each with billions of transistors, are the engine of visual computing and among the world's most complex processors. We have GPU product brands designed for specific users and applications: GeForce for gamers; Quadro for designers; Tesla for researchers; and GRID VGX for cloud-based server graphics modules. We recently announced the NVIDIA GRID visual computing appliance, a fully integrated system with GRID VGX graphics modules that run NVIDIA's proprietary system software. GRID is a first-of-its-kind device, designed to serve graphics-intensive applications from the cloud simultaneously to a large number of concurrent users.

The Tegra processor is a system-on-a-chip, or SOC, integrating an entire computer on a single chip. Tegra processors incorporate multi-core GPUs and CPUs together with audio, video and input/output capabilities. They can also be integrated with baseband processors for phone and data communication. Unlike power-inefficient processors built for PCs, our Tegra SOC conserves power while delivering state-of-the-art graphics and multimedia processing. Tegra runs devices like smartphones, tablets and PCs; it can also be embedded into smart devices, such as televisions, monitors, set-top boxes, gaming devices and cars. We recently announced Project SHIELD, the first Android device designed for gaming. Project SHIELD features our Tegra 4 processor, contains proprietary NVIDIA-developed software and system technologies and leverages our deep partnerships with game developers all over the world.

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

Our Businesses

We have two primary reporting segments - the GPU business and the Tegra Processor business. During the last several years, we have operated and reported three reporting segments - the GPU business, the Professional Solutions business, and the Consumer Products business. However, during the fourth quarter of fiscal year 2013, we began reporting two segments to reflect the way we are now managing our businesses internally which is based on whether the underlying products leverage our GPU or our Tegra processor technologies. Comparative periods presented reflect this change.

Our GPU business leverages our GPU technology across multiple end markets. It now comprises four primary product lines including GeForce for desktop and notebook PCs and Macs; Quadro for professional workstations; Tesla for high-performance servers and workstations; and NVIDIA GRID for server graphics solutions. It also includes other related products, licenses and revenue supporting the GPU business, such as memory products. Our Tegra Processor business comprises product lines primarily based on our Tegra SOC and modem processor technologies. This includes Tegra for smartphones and tablets for both Android and Windows RT-based devices; automotive computers, including infotainment and navigation systems; and gaming devices such as Project SHIELD. It also includes other related products, licenses, and revenue supporting the Tegra Processor business such as Icera baseband processors and RF transceivers, embedded products, and licenses and other revenue associated with game consoles.

In addition to the two reporting segments discussed above, the “All Other” category primarily includes licensing revenue from our patent cross licensing agreement with Intel.

Recent Developments, Future Objectives and Challenges

GPU Business

During fiscal year 2013, we launched our new Kepler GPU architecture across our GPU products. Kepler was initially launched in our GeForce desktop and notebook PC products in early fiscal year 2013 and gradually powered Tesla and Quadro devices during the second half of fiscal year 2013. Our Kepler products are faster, smaller and more power efficient than products based on our previous architecture.

In our Tesla product line, we introduced the K10 and K20 family of GPU accelerators based on the Kepler architecture during fiscal year 2013, making the technology behind the world's fastest supercomputer, Titan, at Oak Ridge National Laboratory available to all. We also announced that the space research organization in India was utilizing their Supercomputer for Aerospace with GPU Architecture, or SAGA, system to improve the design and analysis of new and existing satellite launch vehicles.

Additionally, we launched the GRID VGX, a first-of-its kind technology, which makes it possible to access graphics-intensive applications on a remote server from virtually any computing device, anywhere by connecting to the cloud, instead of on a local PC or workstation. With our new GRID VGX product line, we are leveraging GPUs beyond the PC into the server.

Tegra Processor Business

During fiscal year 2013, the first Tegra 3 phone, the HTC One X, was launched. Further, Fujitsu's Arrows X, a quad-core LTE smartphone powered by Tegra 3, began shipping into Japan in the second quarter of fiscal year 2013.

During fiscal year 2013, Google launched its Nexus 7 tablet powered by our Tegra 3. Nexus was the first device to run Jelly Bean, the latest version of the Android operating system. Several Windows RT devices powered by Tegra 3 also came to market this year including the Asus VivoTab RT, IdeaPad Yoga 11 from Lenovo, and Microsoft Surface RT.

Tegra processors began shipping in the 17-inch touchscreen and navigation system in Tesla Motors' new Model S during this year.

We also announced Project SHIELD at the 2013 Consumer Electronics Show. Project SHIELD is a unique Android gaming device. Powered by our Tegra 4 processor, it integrates a 5-inch retinal display, a console-grade game controller and the first mobile tuned-port, bass reflex speakers.

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

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

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

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

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

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. Furthermore, there can be no assurance that we will be able to continue to obtain credit insurance in the future.

As of January 27, 2013, our allowance for doubtful accounts receivable was $1.8 million and our gross accounts receivable balance was $473.6 million. Of the $473.6 million, $71.1 million was covered by credit insurance and $9.2 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 $0.8 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 0.4% during fiscal years 2013 and 2012. As of January 27, 2013, our allowance for doubtful accounts receivable represented 0.4% 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 our 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 27, 2013, our inventory reserve was $118.5 million. As a percentage of our gross inventory balance, our inventory reserve has ranged between 15.0% and 30.6% during fiscal years 2013 and 2012. As of January 27, 2013, our inventory reserve represented 22.0% 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.

During the three fiscal years ended January 30, 2011, we recorded a cumulative net charge of $475.9 million, most of which was charged against cost of revenue, 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. 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. If the 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 27, 2013, we had a valuation allowance of $224.8 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 $459.1 million as of January 27, 2013. 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 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 14 of the Notes to the Consolidated Financial Statements in Part IV, Item 15 of this Annual Report on 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 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 identified four reporting units for the purposes of completing our goodwill analysis. 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.

In fiscal year 2012, we early adopted an accounting standard update, commonly referred to as a 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 a significant change or events occur, 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 the 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 2013, we utilized a qualitative analysis for two reporting units where no significant change occurred and no potential impairment indicators arose since the previous annual evaluation of goodwill and concluded it is more likely than not that the fair value of those reporting units is more than their carrying values 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 2014. 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 two reporting units during the fourth quarter of fiscal year 2013 and concluded that there was no impairment as the fair value of our reporting units exceeded their carrying values by approximately 23% and 208%. We have considered both the income method and market method, where applicable, when determining the fair value of reporting units. Our goodwill impairment test uses a weighting primarily towards the income method to estimate the reporting unit's fair value. The income method is based on a discounted future cash flow analysis while the market method is based on financial multiples of comparable companies and applies a control premium.

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. The market method of determining the fair value of our reporting unit 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 9 of the Notes to the Consolidated Financial Statements in Part IV, Item 15 of this Annual Report on 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 27, 2013.

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

We measure stock-based compensation expense based on the estimated fair value of equity awards at the grant date, and recognize the expense using a straight-line attribution method over the requisite employee service period. 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, minus a dividend yield discount, as the fair value of awards of restricted stock units, or RSUs. We calculate the fair value of our employee stock purchase plan using the Black-Scholes model. Our stock-based compensation for employee stock purchase plan is expensed using an accelerated amortization model.

We determine the fair value of stock option awards on the date of grant using an option-pricing model that is affected by our stock price as well as assumptions regarding a number of highly complex and subjective variables. These variables include, but are not limited to, weighted average expected term, risk-free interest rate, expected stock price volatility, dividend yield, actual and projected employee stock option exercise behaviors, vesting schedules and death and disability probabilities We also segregate options into groups of employees with relatively homogeneous exercise behavior in order to calculate the best estimate of fair value using the binomial valuation model.

The expected life of employee stock options is a derived output of our valuation model and is impacted by the underlying assumption of our company. The risk-free interest rate assumption is based upon observed interest rates on Treasury bills appropriate for the term of our employee stock options. Our management has determined that the use of implied volatility is expected to be more reflective of market conditions and, therefore, can reasonably be expected to be a better indicator of our expected volatility than historical volatility. Dividend yield is based on history and expectation of dividend payouts.

Prior to the initial declaration of a quarterly cash dividend on November 8, 2012, the fair value of our equity awards was based on an expected dividend yield of 0% reflecting our prior history in which we had not paid and did not expect to pay cash dividends on our common stock. For awards granted on or subsequent to November 8, 2012, we now use a dividend yield at grant date based on the per share dividends declared during the most recent quarter. Our RSU awards are not eligible for cash dividends prior to vesting; therefore, the fair value of RSUs is discounted by the dividend yield.

Additionally, for employee stock option and RSU awards, we estimate forfeitures annually and revise the estimates of forfeiture in subsequent periods if actual forfeitures differ from those estimates. Forfeitures are estimated based on historical experience. 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.

Using the binomial model, we estimated the fair value of the stock options granted under our stock option plans using the following assumptions during fiscal year 2013:

Weighted average expected life (in years)	3.1-4.9
Risk-free interest rate	1.5%-2.3%
Volatility	39%-49%
Dividend yield	2.4%

We used the Black-Scholes model to estimate the fair value of shares issued under our ESPP during fiscal year 2013, using the following assumptions:

Weighted average expected life (in years)	0.5-2.0
Risk-free interest rate	0.1%-0.3%
Volatility	44%-47%
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. 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 investigation 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 27, 2013	**January 29, 2012**	**January 30, 2011**
Revenue	100.0%	100.0%	100.0 %
Cost of revenue	48.0	48.6	60.2
Gross profit	52.0	51.4	39.8
Operating expenses:			
Research and development	26.8	25.1	24.0
Sales, general and administrative	10.1	10.1	10.2
Legal settlement	—	—	(1.6)
Total operating expenses	36.9	35.2	32.6
Income from operations	15.1	16.2	7.2
Interest and other income, net	0.3	0.4	0.4
Income before income taxes	15.4	16.6	7.6
Income tax expense	2.3	2.1	0.5
Net income	13.1%	14.5%	7.1 %

Fiscal Years Ended January 27, 2013, January 29, 2012 and January 30, 2011

Revenue

Fiscal Year 2013 vs. Fiscal Year 2012

Revenue was $4.28 billion for fiscal year 2013 and $4.00 billion for fiscal year 2012, an increase of 7.1%. A discussion of our revenue results for each of our reporting segments and the other category is as follows:

GPU Business. GPU business revenue increased by 2.0% to $3,251.7 million for fiscal year 2013 when compared to $3,186.8 million for fiscal year 2012. This growth was largely attributable to the introduction of GPUs based on our Kepler architecture in fiscal year 2013. GeForce notebook revenues increased on the strength of Kepler-based design wins on the Ivy Bridge platform. Strong demand for Kepler-based GeForce desktop GPU products also contributed to the increase in GPU business revenues. The GPU business also benefited from a greater than 36.0% increase in Tesla revenue in fiscal 2013. Offsetting these increases were a decrease in Quadro revenue, which we believe was due primarily to general weakness in Western Europe, and a continued decline in sales of our MCP products as we continued to phase out our chipset product line.

Tegra Processor Business. Tegra Processor business revenue increased by 29.3% to $764.4 million for fiscal year 2013 as compared to $591.2 million for fiscal year 2012. This increase was primarily due to higher sales of our Tegra 3-based smartphones and tablet devices as we transitioned from the previous generation Tegra 2-based products and introduced our Tegra-3 based processors in Windows RT-based tablet devices. Additionally, revenues for our embedded products for entertainment and automotive devices also increased during fiscal year 2013. Offsetting these increases was a decrease in revenue from license fees and other revenue related to game consoles.

All Other. The increase in revenue is also due to revenue from the patent cross licensing arrangement we entered into with Intel in January 2011. We recognized $264.0 million in related licensing revenue during the entire twelve months of fiscal year 2013, while fiscal year 2012 only included $220.0 million in related revenue - reflecting only ten months of the corresponding 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 and the other category is as follows:

GPU Business. GPU business revenue decreased by 4.8% to $3,186.8 million for fiscal year 2012 when compared to $3,345.7 million for fiscal year 2011. The decrease was primarily attributable to a decline in sales of MCP products as we continued to phase out our chipset product line. 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 the market rather than from us. Additionally, our Tesla product revenues decreased from the prior year primarily due to lower sales volume. Offsetting these decreases were increases in GeForce desktop and notebook revenues from continued market penetration of our Fermi architecture-based GPUs. Strength of our Fermi architecture and resultant design wins on the Sandy Bridge platform contributed to the increase in GeForce notebook revenues. Quadro revenues improved slightly as 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.

Tegra Processor Business. Tegra Processor business 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 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 license fees related to game consoles remained stable in fiscal year 2012 when compared to fiscal year 2011.

All Other. Revenue increased primarily due to the recognition of $220.0 million of licensing revenue in fiscal year 2012 from the patent cross licensing arrangement with Intel that we entered into in January 2011 and began recognizing in April 2011.

Concentration of Revenue

We generated 74%, 78% and 83% of our total revenue for fiscal years2013, 2012 and 2011, 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 27, 2013	**January 29, 2012**	**January 30, 2011**
Revenue:			
Customer A	13%	11%	—
Customer B	—	—	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 was 52.0%, 51.4% and 39.8% for fiscal years 2013, 2012 and 2011, 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 for the first quarter of fiscal year 2014 to stay flat relative to the fourth quarter of fiscal year 2013.

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

Fiscal Year 2013 vs. Fiscal Year 2012

Our gross margin increased to 52.0% in fiscal year 2013 from 51.4% in fiscal year 2012. The improvement in gross margin was driven primarily by increased unit sales and a richer product mix of our high-end GeForce desktop products, plus Tesla and Quadro products. The addition of a full year of revenue from the patent cross licensing arrangement with Intel compared to ten months of such corresponding revenue in fiscal year 2012 also contributed to the improvement in gross margin. Offsetting these were the unfavorable impact of higher net provisions for inventory in fiscal year 2013 when compared to fiscal year 2012.

Our gross margin is favorably impacted by sales of products that were previously written down. Sales of such items improved gross margin by approximately 1.3% and 1.8% in fiscal years 2013 and 2012, respectively. Conversely, our gross margin is unfavorably impacted by provisions for new inventory reserves. The overall net effect on our gross margin from inventory reserves and sales of items previously written down was a 0.8% unfavorable impact in fiscal year 2013 and a 0.5% favorable impact in fiscal year 2012.

GPU Business. The gross margin of our GPU business increased during fiscal year 2013 when compared to fiscal year 2012. This was primarily due to a richer product mix of our Kepler-based high-end 28 nanometer GeForce desktop products and our Quadro products. Memory margins strengthened on improved market pricing. These favorable contributors to gross margin were primarily offset by higher net inventory reserves in fiscal year 2013 compared to fiscal year 2012.

Tegra Processor Business. The gross margin of our Tegra Processor business decreased slightly during fiscal year 2013 as compared to fiscal year 2012. This decrease was the result of a change in product mix driven by a lower mix of revenue from areas such as license fees and other revenues related to game consoles, which typically have higher gross margins than our Tegra products, offset by a higher mix of revenue from sales of our Tegra products, which grew substantially during the year.

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 by revenue from the patent cross licensing arrangement with Intel, entered into in January 2011. Additionally, the increase in unit sales and a richer product mix of our GeForce desktop and notebook products and Quadro workstation products as well as manufacturing cost efficiencies and strong management of inventory also helped our gross margin improve in fiscal year 2012. 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 a 3.0% unfavorable impact in fiscal year 2011.

GPU Business. The gross margin of our GPU business increased during fiscal year 2012 when compared to fiscal year 2011. This was primarily due to lower net provisions for inventory 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. Higher unit sales and richer product mix of our GeForce desktop and notebook products also improved gross margin for the GPU business. In addition, the gross margin for both Quadro and Tesla products remained stable during fiscal year 2012 as compared to fiscal year 2011.

Tegra Processor Business. The gross margin of our Tegra Processor business 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 license fees and other revenue related to game consoles and a higher mix of revenue from our Tegra products, which grew substantially during fiscal year 2012.

Operating Expenses

	Year Ended				Year Ended			
	January 27, 2013	**January 29, 2012**	**$ Change**	**% Change**	**January 29, 2012**	**January 30, 2011**	**$ Change**	**% Change**
	(In millions)				(In millions)			
Research and development expenses	$ 1,147.3	$ 1,002.6	$ 144.7	14.4%	$ 1,002.6	$ 848.8	$ 153.8	18.1 %
Sales, general and administrative expenses	430.8	405.6	25.2	6.2%	405.6	361.5	44.1	12.2 %
Legal settlement	—	—	—	—	—	(57.0)	57.0	(100.0)%
Total operating expenses	$ 1,578.1	$ 1,408.2	$ 169.9	12.1%	$ 1,408.2	$ 1,153.3	$ 254.9	22.1 %
Research and development as a percentage of net revenue	26.8%	25.1%			25.1%	24.0%		
Sales, general and administrative as a percentage of net revenue	10.1%	10.1%			10.1%	10.2%		

Research and Development

Fiscal Year 2013 vs. Fiscal Year 2012

Research and development expenses increased by $144.7 million, or 14.4%, year over year. This increase was primarily due to a $99.4 million increase in compensation and benefits expense as we continue to hire engineering talent to invest in our business. Depreciation and amortization increased by $9.8 million, driven primarily by amortization of intangible assets associated with our acquisition of Icera in fiscal year 2012, as well as purchases of additional hardware and licenses during the year. Engineering development expenses increased by $6.8 million related to the ramp of our next-generation GPU architecture, Kepler, designed for 28nm technology and our next generation Tegra processor architecture, Tegra 4.

Fiscal Year 2012 vs. Fiscal Year 2011

Research and development expenses increased by $153.8 million, or 18.1%, year over year. This increase was primarily driven by investments in our efforts to build next generation energy efficient computing architectures. These efforts resulted in a $83.7 million increase in compensation and benefits expense and a $22.5 million increase in stock-based compensation. Development expenses increased by $9.0 million related to the ramp of our Kepler GPU architecture, designed for 28nm technology and our Tegra 3 mobile computing architecture. Depreciation and amortization increased by $8.8 million, driven primarily by amortization of 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 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.

Sales, General and Administrative

Fiscal Year 2013 vs. Fiscal Year 2012

Sales, general and administrative expenses increased by $25.2 million, or 6.2%, year over year. This increase was primarily due to a $21.6 million increase in compensation and benefits expense as we continue to invest in our business. Also contributing to the increase was a $20.1 million expense for the net present value of a charitable contribution that we recorded in the second quarter of fiscal year 2013. Offsetting these increases were decreases in outside professional fees of $10.4 million due to an overall decrease in professional services costs during fiscal year 2013 compared with fiscal year 2012 due to a general decline in litigation-related costs and the absence of services associated with acquisition activity in fiscal year 2013.

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 expense increased by $29.5 million, primarily attributable to employee personnel 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 employee personnel. Also contributing to the increase were $4.4 million of transaction costs related to the acquisition of Icera, $3.5 million for compensation charges related to the retention program we established for Icera employees and $2.2 million of amortization expense for intangible assets associated with the Icera acquisition. Offsetting these increases were decreases in outside professional fees of $4.0 million due to lower litigation-related costs and a decrease in depreciation and amortization of $9.2 million due to certain software and lease-hold improvements of buildings that became fully depreciated during fiscal year 2012.

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 increase in the first quarter of fiscal year 2014, relative to the fourth quarter of fiscal year 2013, primarily due to employee-related costs, including supporting infrastructure costs related to planned hiring.

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, was $16.6 million, $16.1 million and $15.9 million in fiscal years 2013, 2012 and 2011, respectively. This increase was primarily due to the result of higher average cash balances offset by lower interest rates.

Other Income and Expense

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 $2.8 million, $1.0 million and $0.5 million in fiscal years 2013, 2012 and 2011, respectively. These changes were primarily driven by an increase in foreign currency translation losses.

Income Taxes

We recognized income tax expense of $99.5 million, $82.3 million and $18.0 million during fiscal years 2013, 2012 and 2011, respectively. Income tax expense as a percentage of income before taxes, or our annual effective tax rate, was 15.0%, 12.4%, and 6.7% in fiscal years 2013, 2012 and 2011, respectively.

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, including British Virgin Islands, Hong Kong, China, Taiwan and United Kingdom, 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 16% in the first quarter of fiscal year 2014, 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 14 of the Notes to the Consolidated Financial Statements in Part IV, Item 15 of this Annual Report on Form 10-K for additional information.

Liquidity and Capital Resources

	January 27, 2013	January 29, 2012
	(In millions)	
Cash and cash equivalents	$ 732.8	$ 667.9
Marketable securities	2,995.1	2,461.7
Cash, cash equivalents, and marketable securities	$ 3,727.9	$ 3,129.6

	Year Ended		
	January 27, 2013	January 29, 2012	January 30, 2011
	(In millions)		
Net cash provided by operating activities	$ 824.2	$ 909.2	$ 675.8
Net cash used in investing activities	$ (744.0)	$ (1,143.4)	$ (649.7)
Net cash (used in) provided by financing activities	$ (15.3)	$ 236.7	$ 192.0

As of January 27, 2013, we had $3.73 billion in cash, cash equivalents and marketable securities, an increase of$598.3 million from the end of fiscal year2012. 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 $824.2 million, $909.2 million and $675.8 million during fiscal years 2013, 2012 and 2011, respectively.

Cash provided by operating activities decreased in fiscal year2013 compared to fiscal year2012 primarily due to a decrease in net income and unfavorable changes in operating assets and liabilities compared to fiscal year 2012. For example, accounts receivable increased primarily due to higher sales in the fourth quarter of fiscal year 2013 compared to the fourth quarter of fiscal year 2012 and inventory increased as a result of the production ramp of Kepler-based GPU products.

Cash provided by operating activities increased in fiscal year 2012 compared to fiscal year 2011 primarily due to an increase in 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.

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 $744.0 million, $1,143.4 million and $649.7 million during fiscal years 2013, 2012 and 2011, respectively.

Cash used in investing activities for fiscal year2013 decreased by $399.4 million from fiscal year 2012 primarily due to the acquisition of Icera in fiscal year 2012. We used $183.3 million towards capital expenditures in fiscal year2013 mainly for the 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.

Cash used in investing activities for fiscal year 2012 increased by $493.7 million from fiscal year 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.

Financing activities

Financing activities used cash of $15.3 million during fiscal year 2013 and provided cash of $236.7 million and $192.0 million during fiscal years 2012 and 2011, respectively.

Cash used in financing activities in fiscal year 2013 was primarily due to our repurchase of $100.0 million of common stock and our first-ever cash dividend payments of $46.9 million. These uses of cash were offset by cash proceeds of $64.9 million from common stock issued under our employee stock plans and a non-cash tax benefit of $68.7 million related to employee stock-based compensation.

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 related to employee stock-based compensation.

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 27, 2013, 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 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 income 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 27, 2013 and January 29, 2012, we had $3.73 billion and $3.13 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 27, 2013, we were in compliance with our investment policy. As of January 27, 2013, our investments in U.S. government agencies and U.S. government sponsored enterprises represented approximately 56% of our total investment portfolio, while the financial sector accounted for approximately 19% 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 27, 2013. Based on our quarterly impairment review, we concluded that our investments were appropriately valued and did not record any impairment during fiscal year 2013.

Net realized gains were $0.5 million, $0.4 million and $1.5 million for fiscal years 2013, 2012 and 2011, respectively. As of January 27, 2013, we had a net unrealized gain of $10.9 million, which was comprised of gross unrealized gains of $11.7 million, offset by $0.8 million of gross unrealized losses. 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.

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. Three customers accounted for approximately 40% of our accounts receivable balance atJanuary 27, 2013. 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 27, 2013, we had cash, cash equivalents and marketable securities of $1.80 billion held within the United States and $1.93 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 27, 2013, we have not provided for U.S. federal and state income taxes on approximately $1.68 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 tax credit carryforwards. Further, in addition to the $1.80 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 effect 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 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 3 of the Notes to the Consolidated Financial Statements in Part IV, Item 15 of this Annual Report on Form 10-K for further information regarding this cross license and the settlement.

Stock Repurchase Program

In fiscal year 2007, our Board of Directors 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. In October 2012, the Board extended the program through December 2014. The repurchases will be made from time to time in the open market, in privately negotiated transactions, or in structured stock repurchase programs, and may be made in one or more larger repurchases, in compliance with Rule 10b-18 of the Exchange Act, subject to market conditions, applicable legal requirements, and other factors. The program does not obligate NVIDIA to acquire any particular amount of common stock and the program may be suspended at any time at our discretion. As part of our share repurchase program, we have entered into, and we may continue to enter into, structured share repurchase transactions with financial institutions. These agreements generally require that we make an up-front payment in exchange for the right to receive a fixed number of shares of our common stock upon execution of the agreement, and a potential incremental number of shares of our common stock, within a pre-determined range, at the end of the term of the agreement.

Through January 27, 2013, we have repurchased an aggregate of 99.3 million shares under our stock repurchase program for a total cost of $1.56 billion. As of January 27, 2013, we are authorized, subject to certain specifications, to repurchase shares of our common stock up to $1.14 billion through December 2014. Please refer to Note 2 of the Notes to the Consolidated Financial Statements in Part IV, Item 15 of this Annual Report Form 10-K for further discussion regarding our equity incentive plans.

In addition to our Board authorized stock repurchases, we withhold common stock shares associated with net share settlements to cover tax withholding obligations upon the vesting of RSU awards under our equity incentive program. During the fiscal year 2013, we withheld approximately 1.8 million shares at a total cost of $25.8 million through net share settlements. Please refer to Note 2 of the Notes to the Consolidated Financial Statements in Part IV, Item 15 of this Annual Report on Form 10-K for further information regarding stock-based compensation related to equity awards granted under our equity incentive programs..

Cash Dividend Program

Prior to fiscal year 2013, we had never declared or paid any dividend on shares of our common stock. On November 8, 2012, we announced the initiation of a quarterly cash dividend program. This quarterly dividend of $0.075 per share is equivalent to $0.30 per share on an annual basis. The initial cash dividend was paid on December 14, 2012 to all common stockholders of record at the close of business on November 23, 2012. A subsequent cash dividend of $0.075 per share was declared on February 13, 2013, payable on March 21, 2013 to all common stockholders of record at the close of business on February 28, 2013. In fiscal year 2013, we paid $46.9 million in dividends to our common stockholders.

Our cash dividend program and the payment of future cash dividends under that program are subject to continued capital availability and our Board of Directors' continuing determination that the dividend program and the declaration of dividends thereunder are in the best interests of our stockholders and are in compliance with all laws and agreements of NVIDIA applicable to the declaration and payment of cash dividends.

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, stock repurchase, cash dividend 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 $240.0 million to $280.0 million for capital expenditures during fiscal year 2014, primarily for property development, leasehold improvements, software licenses, emulation equipment, computers and engineering workstations. In fiscal year 2014, we expect to break ground on a new building for our headquarters campus in Santa Clara to provide for our near-term growth needs. This 500,000 square foot building will provide 2,500 seats and be built on land we purchased five years ago. We estimate capital funding of $32.0 million for the campus development project in fiscal year 2014. In addition, we may continue to use cash in connection with the acquisition of new businesses or assets.

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.

During the three year period ended January 30, 2011, we recorded a cumulative net charge of $475.9 million, most of which was charged against cost of revenue, 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. 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. If the 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.

Contractual Obligations

The following table summarizes our contractual obligations as of January 27, 2013:

	Payment Due By Period					
Contractual Obligations	**Total**	**Less than 1 Year**	**1-3 Years**	**4-5 Years**	**More than 5 Years**	**All Other**
	(In thousands)					
Operating leases	$ 180,823	$ 34,294	$ 55,081	$ 47,903	$ 43,545	$ —
Capital lease	30,720	4,926	9,885	10,448	5,461	—
Purchase obligations (1)	470,309	470,309	—	—	—	—
Uncertain tax positions, interest and penalties (2)	212,245	—	—	—	—	212,245
Capital purchase obligations	44,788	44,788	—	—	—	—
Retention program (3)	39,451	14,776	24,675			
Total contractual obligations	$ 978,336	$ 569,093	$ 89,641	$ 58,351	$ 49,006	$ 212,245

(1) Represents our inventory purchase commitments as of January 27, 2013.

(2) Represents unrecognized tax benefits of $212.2 million which consists of $104.0 million recorded in non-current income taxes payable and $96.9 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 $11.3 million as of January 27, 2013. 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.

(3) Represents a retention program in the aggregate amount of approximately $68.0 million in connection with our acquisition of Icera on June 10, 2011. As of January 27, 2013, we have made payments of $28.5 million in connection with this program. Remaining payments will be paid out within the next three years.

Off-Balance Sheet Arrangements

During fiscal years 2013, 2012 and 2011, 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 Annual Report on 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 27, 2013 and January 29, 2012, we had $3.73 billion and $3.13 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 27, 2013, 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 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 Income 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 27, 2013, 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 $20.4 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 27, 2013, our investments in government agencies and government sponsored enterprises represented approximately 56% of our total investment portfolio, while the financial sector accounted for approximately 19% of our total investment portfolio. 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 $49-$123 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 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 for fiscal years 2013, 2012 and 2011 was $(1.5) million, $1.6 million and $(2.4) 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, which could negatively impact our ability to compete. Conversely, decreases in the value of the United States’ dollar relative to other currencies could result in our suppliers raising their prices in order to continue doing business with us. Fluctuations in currency exchange rates could harm our business in the future.