NVIDIA CORP
Form 10-Q
December 07, 2006

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

FORM 10-Q

[x] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended October 29, 2006
OR
[_] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission file number: 0-23985

NVIDIA CORPORATION
(Exact name of registrant as specified in its charter)

Delaware	**94-3177549**
(State or Other Jurisdiction of Incorporation or Organization)	**(I.R.S. Employer Identification No.)**

2701 San Tomas Expressway
Santa Clara, California 95050
(408) 486-2000
(Address, including Zip Code, of Registrant's Principal Executive Offices and Registrant's Telephone Number, including Area Code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.
Yes [x] No [ ]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):
x Large accelerated filer o Accelerated filer o Non-accelerated filer

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

The number of shares of the registrant's common stock outstanding as of November 10, 2006 was 355,544,989 shares.

NVIDIA CORPORATION
FORM 10-Q
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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS (Unaudited)

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

		October 29, 2006		January 29, 2006 (As Restated) (1)
ASSETS				
Current assets:				
Cash and cash equivalents	$	741,746	$	551,756
Marketable securities		431,849		398,418
Accounts receivable, net		439,252		318,186
Inventories, net		373,558		254,870
Prepaid expenses and other current assets		36,801		24,387
Deferred income taxes		2,682		2,682
Total current assets		2,025,888		1,550,299
Property and equipment, net		220,540		178,152
Deposits and other assets		42,104		27,477
Goodwill		203,679		145,317
Intangible assets, net		26,538		15,421
Deferred Income Taxes		12,404		38,021
	$	2,531,153	$	1,954,687
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current liabilities:				
Accounts payable	$	324,396	$	179,395
Accrued liabilities		333,033		259,264
Notes Payable and other		340		-
Total current liabilities		657,769		438,659
Other long-term liabilities		27,667		20,036
Commitments and contingencies - see Note 12 and Note 14				
Stockholders' equity:				
Preferred stock		--		--
Common stock		380		360
Additional paid-in capital		1,200,723		965,604
Deferred compensation		--		(3,604)
Treasury stock		(387,120)		(212,142)
Accumulated other comprehensive loss, net		(1,325)		(1,957)
Retained earnings		1,033,059		747,731
Total stockholders' equity		1,845,717		1,495,992
	$	2,531,153	$	1,954,687

(1) See Note 2, "Restatement of Consolidated Financial Statements, Audit Committee and Company Findings" of the Notes to Condensed Consolidated Financial Statements.

See accompanying notes to condensed consolidated financial statements.

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NVIDIA CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(In thousands, except per share data)
(Unaudited)

	Three Months Ended		Nine Months Ended	
	October 29, 2006	October 30, 2005 (As Restated) (1)	October 29, 2006	October 30, 2005 (As Restated) (1)
Revenue	$ 820,572	$ 583,415	$ 2,189,898	$ 1,742,073
Cost of revenue (A)	486,630	355,420	1,275,155	1,086,842
Gross profit	333,942	227,995	914,743	655,231
Operating expenses:				
Research and development (A)	140,732	88,829	391,191	263,777
Sales, general and administrative (A)	75,597	55,436	208,614	151,322
Settlement costs	-	14,158	-	14,158
Total operating expenses	216,329	158,423	599,805	429,257
Operating income	117,613	69,572	314,938	225,974
Interest income	10,652	5,380	28,278	14,143
Interest expense	(22)	--	(29)	(13)
Other income (expense), net	84	766	(266)	1,608
Income before income tax expense	128,327	75,718	342,921	241,712
Income tax expense	21,816	11,271	58,297	37,910
Income before change in accounting principle	106,511	64,447	284,624	203,802
Cumulative effect of change in accounting principle, net of income tax	-	-	704	-
Net income	$ 106,511	$ 64,447	$ 285,328	$ 203,802
Basic net income per share:				
Prior to cumulative effect of change in accounting principle	$ 0.30	$ 0.19	$ 0.83	$ 0.60
Cumulative effect of change in accounting principle	-	-	-	-
Basic net income per share	$ 0.30	$ 0.19	$ 0.83	$ 0.60
Shares used in basic per share computation	352,657	340,254	342,741	338,478
Diluted net income per share:				
Prior to cumulative effect of change in accounting principle	$ 0.27	$ 0.18	$ 0.75	$ 0.56
Cumulative effect of change in accounting principle	-	-	-	-
Diluted net income per share	$ 0.27	$ 0.18	$ 0.75	$ 0.56
Shares used in diluted per share computation	391,155	366,857	380,281	363,216

(A) Results for the three and nine months ended October 29, 2006 and October 30, 2005 include stock-based compensation expense, net of associated payroll taxes, as follows (in thousands):

	Three Months Ended		Nine Months Ended	
	October 29, 2006	**October 30, 2005 (As Restated) (1)**	**October 29, 2006**	**October 30, 2005 (As Restated) (1)**
Cost of revenue	$ 2,305	$ 173	$ 5,278	$ 624
Research and development	18,730	892	49,744	4,113
Sales, general and administrative	10,700	899	27,804	(2,956)

(1) See Note 2, "Restatement of Consolidated Financial Statements, Audit Committee and Company Findings" of the Notes to Condensed Consolidated Financial Statements.

See accompanying notes to condensed consolidated financial statements.

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

	Nine Months Ended	
	October 29, 2006	**October 30, 2005 (As Restated) (1)**
Cash flows from operating activities:		
Net Income	$ 285,328	$ 203,802
Adjustments to reconcile net income to net cash provided by operating activities:		
Cumulative effect of change in accounting principle, net of tax	(704)	-
Non-cash realized gain on investment exchange	-	(96)
In-process research and development	602	-
Depreciation and amortization	73,270	74,189
Deferred income taxes	25,617	-
Stock-based compensation	83,244	6,763
Bad debt expense	226	163
Excess tax benefits from stock-based compensation	(22,559)	-
Other	36	85
Changes in operating assets and liabilities:		
Accounts receivable	(112,335)	(55,621)
Inventories	(112,540)	30,671
Prepaid expenses and other current assets	(10,502)	(3,956)
Deposits and other assets	(13,670)	(5,995)
Accounts payable	82,573	(62,494)
Accrued liabilities	78,130	33,514
Net cash provided by operating activities	356,716	221,025
Cash flows from investing activities:		
Purchases of marketable securities	(179,050)	(182,531)
Sales and maturities of marketable securities	146,745	217,286
Purchases of property and equipment and intangible assets	(69,564)	(56,155)
Acquisition of businesses, net of cash and cash equivalents	(67,037)	-
Investments in non-affiliates	(8)	(9,684)
Net cash used in investing activities	(168,914)	(31,084)
Cash flows from financing activities:		
Stock repurchase	(174,978)	(138,509)
Common stock issued under employee stock plans	154,607	104,729
Excess tax benefits from stock-based compensation	22,559	-
Retirement of common stock	-	491
Principal payments on capital leases	-	(856)
Net cash provided by/(used in) financing activities	2,188	(34,145)
Change in cash and cash equivalents	189,990	155,796
Cash and cash equivalents at beginning of period	551,756	208,512
Cash and cash equivalents at end of period	$ 741,746	$ 364,308
Supplemental disclosures of cash flow information:		
Cash paid for interest	$ -	$ 12
Cash paid for income taxes, net	$ 27,226	$ 2,659

Other non-cash activities:				
Acquisition of business - goodwill adjustment	$	5	$	25,000
Marketable security received from investment exchange	$	-	$	96
Asset retirement obligation	$	-	$	1,611
Deferred compensation	$	3,604	$	153
Unrealized losses from marketable securities	$	1,052	$	1,127
Assets acquired by assuming related liabilities	$	51,463	$	4,048

(1) See Note 2, “Restatement of Consolidated Financial Statements, Audit Committee and Company Findings” of the Notes to Condensed Consolidated Financial Statements.

See accompanying notes to condensed consolidated financial statements.

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

Note 1 - Summary of Significant Accounting Policies

Basis of presentation

The accompanying unaudited condensed consolidated financial statements were prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Article 10 of Securities and Exchange Commission, or SEC, Regulation S-X. In the opinion of management, all adjustments, consisting only of normal recurring adjustments except as otherwise noted, considered necessary for a fair statement of results of operations and financial position have been included. The results for the interim periods presented are not necessarily indicative of the results expected for any future period. The following information should be read in conjunction with the audited financial statements and notes thereto included in our Annual Report on Form 10-K/A for the year ended January 29, 2006.

Fiscal year

We operate on a 52 or 53-week year, ending on the Sunday nearest January 31. The third quarters of fiscal year 2007 and fiscal year 2006 were both 13-week quarters.

Reclassifications

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

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. On an on-going basis, we evaluate our estimates, including those related to revenue recognition, accounts receivable, inventories, stock-based compensation, income taxes and contingencies. These estimates are based on historical facts and various other assumptions that we believe are reasonable.

Recently Issued Accounting Pronouncements

In July 2006, the Financial Accounting Standards Board, or FASB, issued Interpretation No. 48, or FIN 48, *Accounting for Uncertainty in Income Taxes*. FIN 48 applies to all tax positions related to income taxes subject to FASB Statement 109, *Accounting for Income Taxes*. Under FIN 48 a company would 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. FIN 48 clarifies how a company would measure the income tax benefits from the tax positions that are recognized, provides guidance as to the timing of the derecognition of previously recognized tax benefits, and describes the methods for classifying and disclosing the liabilities within the financial statements for any unrecognized tax benefits. FIN 48 also addresses when a company should record interest and penalties related to tax positions and how the interest and penalties may be classified within the financial statements. Any differences between tax liability amounts recognized in the statements of operations as a result of adoption of FIN 48 would be accounted for as a cumulative effect adjustment to the beginning balance of retained earnings. FIN 48 is effective for fiscal years beginning after December 15, 2006. The provisions of FIN 48 will be effective as of first quarter of fiscal

2008. We are currently evaluating the impact that FIN 48 might have on our financial statements. We believe that the cumulative effect of adoption of FIN 48 could result in a change to the beginning balance of retained earnings.

In September 2006, the SEC issued Staff Accounting Bulletin No. 108, or SAB No. 108, *Considering the Effects of Prior Year Misstatements When Quantifying Misstatements in Current Year Financial Statements*, which provides interpretive guidance on how the effects of the carryover or reversal of prior year misstatements should be considered in quantifying a current year misstatement. We will be required to adopt the provisions of SAB No. 108 in our fiscal year 2008. We do not believe the adoption of SAB No. 108 will have a material impact on our consolidated financial position, results of operations or cash flows.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements. SFAS No. 157 establishes a framework for measuring fair value and expands disclosures about fair value measurements. The changes to current practice resulting from the application of this Statement relate to the definition of fair value, the methods used to measure fair value, and the expanded disclosures about fair value measurements. We will be required to adopt the provisions of SFAS No. 157 beginning with our fiscal quarter ending April 29, 2007. We do not believe the adoption of SFAS No. 157 will have a material impact on our consolidated financial position, results of operations or cash flows.

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

Note 2 - Restatement of Consolidated Financial Statements, Audit Committee and Company Findings

In May 2006, following media reports of stock option accounting investigations at other companies, the management of NVIDIA decided to conduct a review of stock option grants made by NVIDIA. Management advised our Board of Directors, or the Board, of the review at a regularly-scheduled meeting of the Board on May 25, 2006. The Board directed management to report its findings to the Audit Committee. Management presented its findings to the Audit Committee in late June 2006. Following that presentation, the Audit Committee determined that it should perform its own independent review of stock option grants made by NVIDIA. The Audit Committee, with the assistance of outside legal counsel, began its review on approximately June 29, 2006.

The Audit Committee's review was completed on November 13, 2006 when the Audit Committee reported its findings to the full Board. The review covered option grants to all employees, directors and consultants for all grant dates during the period from our initial public offering in January 1999 through June 2006. As part of its review, the Audit Committee determined whether the correct measurement dates had been used under applicable accounting principles for these options. The measurement date means the date on which the option is deemed granted under applicable accounting principles, namely Accounting Principles Board Opinion No. 25, or APB 25, *Accounting for Stock Issued to Employees* and related interpretations, and is the first date on which all of the following are known: (1) the individual employee who is entitled to receive the option grant, (2) the number of options that an individual employee is entitled to receive, and (3) the option's exercise price.

Based on the findings of the Audit Committee and our internal review, we identified a number of occasions on which we used an incorrect measurement date for financial accounting and reporting purposes. These errors resulted primarily from our use during our fiscal years 2000, 2001 and 2002, of certain date selection methods discussed below which resulted in employees receiving options with stated exercise prices lower than the market prices as measured based upon the actual grant dates. We ceased using such practices beginning in our fiscal year 2003. The Audit Committee found that, beginning in our fiscal year 2003, we improved our stock option grant processes and have generally granted and priced our employee stock options in an objective and consistent manner since that time. However, for one Company-wide annual stock option grant we made in fiscal 2004, we did not finalize the number of options allocated to each employee as of the stated grant date in May 2003, which resulted in stock-based compensation charges due to the change in the measurement date to the date the grants were finalized. The Audit Committee's review did not identify any additional stock-based compensation charges from measurement date issues subsequent to that fiscal 2004 grant.

In accordance with APB 25, with respect to periods through January 29, 2006, we should have recorded stock-based compensation expense to the extent that the fair market value of our common stock on the correct measurement date exceeded the exercise price of each option granted. For periods commencing January 30, 2006 (the beginning of our fiscal year 2007), we record stock-based compensation expense in accordance with Statement of Financial Accounting Standards No. 123(R) (revised), or SFAS No. 123(R), *Share-Based Payment*. Changes in measurement dates have also contributed to incremental fair value of options under SFAS No. 123. As of the end of our fiscal year 2006, the unamortized incremental fair value charges resulting from the Audit Committee's review were approximately $13.0 million, of which approximately $9.0 million are expected to be amortized in our fiscal year 2007.

As a result of the measurement date errors identified from the Audit Committee's review, through January 29, 2006, we recorded aggregate non-cash stock-based compensation charges of $127.4 million, net of related tax effects. These charges were based primarily on APB 25 (intrinsic value-based) charges and associated payroll taxes of $199.6 million on a pre-tax basis, which are being amortized over the vesting term of the stock options in accordance with

Financial Accounting Standards Board Interpretation No. 28, or FIN 28, *Accounting for Stock Appreciation Rights and Other Variable Stock Option or Award Plans*. We have amortized a substantial portion of these charges to expense during our fiscal years 2000 to 2006. If an option is forfeited prior to vesting, we reverse both the charges amortized to expense in prior periods as well as any remaining unamortized deferred stock-based compensation associated with the forfeited options. Accordingly, our net stock-based compensation charges amortized to our statement of income are lower than the aggregate stock-based compensation charges based on APB 25 (intrinsic-value based). As of January 29, 2006, the remaining APB 25 (intrinsic value-based) unamortized deferred stock-based compensation related to the errors identified during the review was approximately $3.0 million.

The types of errors we identified were as follows:

Improper Measurement Dates for Company-Wide Annual or Retention Stock Option Grants. We determined that, in connection with certain annual or retention stock option grants that we made to employees during our fiscal years 2000, 2001, 2002, 2003 and 2004, the final number of shares that an individual employee was entitled to receive was not determined and/or the proper approval of the related stock option grant had not been given until after the stated grant date. Therefore, the measurement date for such options for accounting purposes was actually subsequent to the stated grant date, resulting in new measurement dates for the related options.

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

Improper Measurement Dates for Stock Option Grants during Fiscal Years 2001 and 2002. In connection with stock option grants that we made to newly-hired employees (and, to a much lesser degree, retention grants to existing employees) during fiscal years 2001 and 2002, our practice was to grant stock options with an exercise price based upon the lowest closing price of our common stock in the last few days of the month of hire or the last few days of any subsequent month in the quarter of hire. The selection of the grant date of the related option grants would be made at the end of the fiscal quarter and was based on achieving the lowest exercise price for the affected employees. As a result of these practices, the measurement date for such options for accounting purposes was actually subsequent to the stated grant date, resulting in new measurement dates for the related options.

Improper Measurement Dates for Stock Option Grants during Fiscal Year 2000. In connection with certain stock option grants to newly-hired employees (and, to a much lesser degree, retention grants to existing employees) during a portion of fiscal year 2000, our practice was to delay the selection of the related grant dates until the end of a two-month period in the fiscal quarter during which the employees who received the grants began their employment with NVIDIA. As a result of this practice, the exercise price of the related option grants was not determined until subsequent to the stated grant date. We also determined that, during fiscal year 2000, we generally set the grant date and exercise price of employee option grants for new hires and promotions at the lowest price of the last few business days of the month of their hire or promotion (or of the following month in certain two-month periods that were chosen for an indeterminate reason). As a result of these practices, the measurement date for such options for accounting purposes was actually subsequent to the stated grant date, resulting in new measurement dates for the related options. In addition, we also determined that the exercise price or the number of options to be granted had not been determined, or the proper approval had not been given, for various other miscellaneous option grants during fiscal year 2000 until after the stated grant date - resulting in new measurement dates for accounting purposes for the related options.

Other Issues Identified. We also identified instances where stock option grants did not comply with applicable terms and
conditions of the stock plans from which the grants were issued. For example, two grants were made to officers of NVIDIA by the chief executive officer under delegated authority; however, under the terms of the applicable plan, the option grant should have been made by our Board or the Compensation Committee. There were also instances where (1) option grants were made to a small group of employees who joined NVIDIA pursuant to a business combination, and to a few other employees in certain instances, with stated exercise prices below the fair market value of our common stock on the actual measurement date of the related grants; and (2) option grants were made to a few individuals who were contractors rather than employees, without recording the appropriate accounting charges. The accounting impact of these items was cumulatively less than $6.0 million. In addition, the Audit Committee did not find any evidence that these violations were committed for improper purposes.

The Audit Committee carefully considered the involvement of current members of management in the option grant process and concluded that the evidence did not give rise to any concern about the integrity of any current officer or director of NVIDIA. The Audit Committee also found that the accounting errors and improper practices brought to light during their review were not motivated by any intent to mislead investors, improve NVIDIA's reported financial results, or obtain any personal benefit. Based on its findings, the Audit Committee was unable to reach any conclusion regarding the integrity of former officers and employees.

As a result of the errors we identified, we have restated our historical financial statements from our fiscal year 2000 through our fiscal year 2006 to record $127.4 million of charges related to stock-based compensation and associated payroll tax expense, net of related income tax effects. These errors resulted in after-tax charges of $1.4 million, $11.7

million and $25.8 million for our fiscal years 2006, 2005 and 2004, respectively. Additionally, the cumulative effect of the related after-tax charges for periods prior to our fiscal year ended January 25, 2004 was $88.4 million. These additional stock-based compensation expense charges were non-cash and had no impact on our reported revenue, cash, cash equivalents or marketable securities for each of the restated periods.

As part of the restatement, for the three and nine month period ended October 30, 2005, we recorded incremental stock-based compensation charges of $1.4 million and $5.9 million, a net (benefit)/charge for payroll taxes resulting from the expiration of statute of limitations of $0.6 million and $(4.2) million, and associated income tax (benefit)/charges of $(1.2) million and $(1.0) million, respectively.

For all periods through the end of our fiscal year 2006, we have recorded aggregate non-cash stock-based compensation charges of $190.2 million, associated payroll tax charges of $9.4 million and a related income tax benefit of $72.2 million.

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

As part of this restatement, we also accrued liabilities and recorded charges to operating costs and expenses for certain payroll tax contingencies related to the incremental stock-based compensation expense in the amount of $18.8 million for all annual periods from our fiscal year 2000 through our fiscal year 2006. We recorded such charges in the amount of $3.1 million, $1.3 million, and $1.6 million for our fiscal years 2006, 2005 and 2004, respectively. Upon expiration of the related statute of limitations, we also recorded benefits from the reversal of previously-recorded payroll tax liabilities of $6.6 million and $2.8 million in our fiscal years 2006 and 2005, respectively. As a result, the net benefit to our statements of income was $3.5 million and $1.5 million for our fiscal years 2006 and 2005, respectively. The cumulative payroll tax expense for periods prior to our fiscal year 2004 was $12.8 million. For those stock option grants that we determined to have incorrect measurement dates for accounting purposes and that we had originally issued as incentive stock options, or ISOs, we recorded a liability for payroll tax contingencies in the event such grants would not be respected as ISOs under the principles of the Internal Revenue Code, or IRC, and the regulations thereunder. These liabilities were recorded with a charge to operating costs and expenses.

We also considered the application of Section 409A of the IRC to certain stock option grants where, under APB 25, intrinsic value existed at the time of grant. In the event such stock options grants are not respected as issued at fair market value at the original grant date under principles of the IRC and the regulations thereunder and are subject to Section 409A, potential remedial actions may be available. We do not expect to incur a material charge as a result of any such potential remedial actions.

As a result of the findings of the Audit Committee, we concluded that we needed to amend our Annual Report on Form 10-K for the fiscal year ended January 29, 2006 to restate our consolidated financial statements for the years ended January 29, 2006, January 30, 2005, and January 25, 2004 and the related disclosures, and our Form 10-Q for the three months ended April 30, 2006.

Note 3 - Stock-Based Compensation

Effective January 30, 2006, we adopted the provisions of Statement of Financial Accounting Standards No. 123(R), or SFAS No. 123(R), *Share-Based Payment*. SFAS No. 123(R) establishes accounting for stock-based awards exchanged for employee services. Accordingly, stock-based compensation cost is measured at grant date, based on the fair value of the awards, and is recognized as expense over the requisite employee service period.

Prior to the adoption of SFAS No. 123(R)

Prior to the adoption of SFAS No. 123(R), we applied Accounting Principles Board Opinion No. 25, or APB No. 25, *Accounting for Stock Issued to Employees*, and related interpretations to account for our stock-based employee compensation plans. As such, compensation expense was recorded if on the date of grant the current fair value per share of the underlying stock
exceeded the exercise price per share. We provided the disclosures required under SFAS No. 123, *Accounting for Stock-Based Compensation*, as amended by SFAS No. 148, *Accounting for Stock-Based Compensation - Transition and Disclosures*, in our periodic reports.

The pro forma information required under SFAS No. 123(R) for periods prior to fiscal 2007 as if we had applied the fair value recognition provisions of SFAS No. 123 to awards granted under our equity incentive plans was as follows for the three and nine month periods ended October 30, 2005:

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

	Three Months Ended October 30, 2005 (As Restated) (In thousands, except per share data)	Nine Months Ended October 30, 2005 (As Restated) (In thousands, except per share data)
Net income, as reported	$ 64,447	$ 203,802
Add: Stock-based employee compensation expense included in reported net income, net of related tax effects	1,410	5,700
Deduct: Stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(22,001)	(66,542)
Pro forma net income	$ 43,856	