

NVIDIA CORP
Form 10-Q
November 19, 2013

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

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT
OF 1934

For the quarterly period ended October 27, 2013

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT
OF 1934

Commission file number: 0-23985

NVIDIA CORPORATION

(Exact name of registrant as specified in its charter)

Delaware
(State or Other Jurisdiction of
Incorporation or Organization)

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

2701 San Tomas Expressway
Santa Clara, California 95050
(408) 486-2000

(Address, including zip code, and telephone number,
including area code, of principal executive offices)

N/A

(Former name, former address and former fiscal year if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes Q No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes Q No o

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

Accelerated filer o

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Large accelerated filer x

Non-accelerated filer o (Do not check if a smaller reporting company) Smaller reporting company o

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

The number of shares of common stock, \$0.001 par value, outstanding as of November 15, 2013, was 568,535,613.

NVIDIA CORPORATION
 FORM 10-Q
 FOR THE QUARTER ENDED October 27, 2013

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WHERE YOU CAN FIND MORE INFORMATION

Investors and others should note that we announce material financial information to our investors using our investor relations website, press releases, SEC filings and public conference calls and webcasts. We intend to also use the following social media channels as a means of disclosing information about the company, our services and other matters and for complying with our disclosure obligations under Regulation FD:

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

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

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

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

The information we post through these social media channels may be deemed material. Accordingly, investors should monitor these accounts and the blog, in addition to following our press releases, SEC filings and public conference calls and webcasts. This list may be updated from time to time. The information we post through these channels is not a part of this quarterly report on Form 10-Q. These channels may be updated from time to time on NVIDIA's investor relations website.

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)

NVIDIA CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(UNAUDITED)

(In thousands, except per share data)

	Three Months Ended		Nine Months Ended	
	October 27, 2013	October 28, 2012	October 27, 2013	October 28, 2012
Revenue	\$ 1,053,967	\$ 1,204,110	\$ 2,985,944	\$ 3,173,257
Cost of revenue	469,552	567,452	1,337,423	1,532,516
Gross profit	584,415	636,658	1,648,521	1,640,741
Operating expenses				
Research and development	340,294	284,180	999,193	849,275
Sales, general and administrative	103,133	100,261	320,025	326,800
Total operating expenses	443,427	384,441	1,319,218	1,176,075
Income from operations	140,988	252,217	329,303	464,666
Interest income	4,022	4,701	12,963	15,215
Other expense, net	(3,526	) (3,290	) (900	) (3,950
Income before income tax expense	141,484	253,628	341,366	475,931
Income tax expense	22,750	44,548	48,293	87,368
Net income	\$ 118,734	\$ 209,080	\$ 293,073	\$ 388,563
Basic net income per share	\$0.20	\$0.34	\$0.49	\$0.63
Shares used in basic per share computation	580,870	622,352	594,363	619,043
Diluted net income per share	\$0.20	\$0.33	\$0.49	\$0.62
Shares used in diluted per share computation	588,752	628,845	600,108	625,973
Cash dividends declared and paid per common share	\$0.075	\$—	\$0.225	\$—

See accompanying Notes to Condensed Consolidated Financial Statements.

NVIDIA CORPORATION AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
 (UNAUDITED)
 (In thousands)

	Three Months Ended		Nine Months Ended	
	October 27, 2013	October 28, 2012	October 27, 2013	October 28, 2012
Net income	\$118,734	\$209,080	\$293,073	\$388,563
Other comprehensive income (loss), net of tax:				
Net change in unrealized gains (losses) on available-for-sale securities, net of tax benefit (expense) of (\$126) and (\$47) for the three and nine months ended October 27, 2013, respectively, and \$95 and (\$148) for the corresponding periods of fiscal 2013, respectively	8	(269	) (2,978	) 497
Reclassification adjustments for net realized gains on available-for-sale securities included in net income, net of tax effects of \$24 and \$615 for the three and nine months ended October 27, 2013, respectively, and \$16 and \$135 for the corresponding periods of fiscal 2013, respectively	(43	) (31	) (1,141	) (251
Other comprehensive income (loss)	\$(35	) \$(300	) \$(4,119	) \$246
Total comprehensive income	\$118,699	\$208,780	\$288,954	\$388,809

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	October 27, 2013	January 27, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	\$562,084	\$732,786
Marketable securities	2,470,870	2,995,097
Accounts receivable, net	447,631	454,252
Inventories	380,319	412,467
Prepaid expenses and other	81,701	76,920
Deferred income taxes	107,236	103,736
Total current assets	4,049,841	4,775,258
Property and equipment, net	595,418	576,144
Goodwill	643,179	641,030
Intangible assets, net	320,589	312,332
Other assets	102,346	107,481
Total assets	\$5,711,373	\$6,412,245
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$333,283	\$356,428
Accrued liabilities and other	652,644	619,795
Total current liabilities	985,927	976,223
Other long-term liabilities	387,784	589,321
Capital lease obligations, long-term	17,015	18,998
Commitments and contingencies - see Note 11	—	—
Stockholders' equity:		
Preferred stock	—	—
Common stock	732	720
Additional paid-in capital	3,407,889	3,193,623
Treasury stock, at cost	(2,499,990	) (1,622,709
Accumulated other comprehensive income	5,862	9,981
Retained earnings	3,406,154	3,246,088
Total stockholders' equity	4,320,647	4,827,703
Total liabilities and stockholders' equity	\$5,711,373	\$6,412,245

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	Nine Months Ended	
	October 27, 2013	October 28, 2012
Cash flows from operating activities:		
Net income	\$293,073	\$388,563
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	184,310	167,834
Stock-based compensation expense	100,091	100,893
Deferred income taxes	7,914	42,684
Excess tax benefits from stock-based compensation	(23,743)	(25,646)
Other	11,311	39,978
Changes in operating assets and liabilities, net of effect of acquisition:		
Accounts receivable	7,806	(109,008)
Inventories	32,178	(88,378)
Prepaid expenses and other current assets	(4,687)	(16,786)
Other assets	7,585	4,784
Accounts payable	(38,376)	49,099
Accrued liabilities and other long-term liabilities	(143,028)	(180,854)
Net cash provided by operating activities	434,434	373,163
Cash flows from investing activities:		
Purchases of marketable securities	(1,420,471)	(1,729,307)
Proceeds from sale of marketable securities	1,475,403	635,733
Proceeds from maturities of marketable securities	447,134	626,434
Purchases of property and equipment and intangible assets	(188,812)	(135,551)
Acquisition of business	(17,145)	—
Other	(2,450)	135
Net cash provided by (used in) investing activities	293,659	(602,556)
Cash flows from financing activities:		
Proceeds from issuance of common stock under employee stock plans	64,749	62,781
Excess tax benefits from stock-based compensation	23,743	25,646
Payments for repurchases of common stock	(850,000)	—
Dividends paid	(133,007)	—
Other	(4,280)	(1,522)
Net cash provided by (used in) financing activities	(898,795)	86,905
Change in cash and cash equivalents	(170,702)	(142,488)
Cash and cash equivalents at beginning of period	732,786	667,876
Cash and cash equivalents at end of period	\$562,084	\$525,388
Supplemental disclosures of cash flow information:		
Cash paid (received) for income taxes, net	\$8,454	\$(40,442)
Cash paid for interest on capital lease obligations	\$1,915	\$2,189
Other non-cash activities:		
Assets acquired by assuming related liabilities	\$28,963	\$43,792
Change in unrealized gains (losses) from marketable securities	\$(4,119)	\$246

See accompanying Notes to Condensed Consolidated Financial Statements.

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

Note 1 - Summary of Significant Accounting Policies

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements were prepared in accordance with accounting principles generally accepted in the United States of America, or U.S. GAAP, for interim financial information and with the instructions to Form 10-Q and Article 10 of Securities and Exchange Commission, or SEC, Regulation S-X. 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 for the fiscal year ended January 27, 2013.

Fiscal Year

We operate on a 52- or 53-week year, ending on the last Sunday in January. Fiscal year 2014 and fiscal year 2013 are both 52-week years. The third quarters of fiscal years 2014 and 2013 are both 13-week quarters.

Principles of Consolidation

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

Reclassifications

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

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. On an on-going basis, we evaluate our estimates, including those related to revenue recognition, cash equivalents and marketable securities, accounts receivable, inventories, income taxes, goodwill, stock-based compensation, warranty liabilities, litigation, investigation and settlement costs and other contingencies. These estimates are based on historical facts and various other assumptions that we believe are reasonable.

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.

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NVIDIA CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

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, 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.